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With The Editors

Rhyme and Reason

MANY people are puzzled by the stock market's tendency to put a low value on high earnings of some companies and a high value on relatively low earnings of others.

Consider the following examples, each representing approximately the current market quotation for $1 of 1941 earning power: Savage Arms, $3.62; U. S. Steel, $5.17; Procter & Gamble, $11.66; General Foods, $13.03; du Pont, $17.72. Taking the extremes, a dollar of du Pont earnings is worth nearly five times as much as a dollar of Savage Arms earnings.

And consider the following current contrasts, calculated on the same basis, among railroad stocks: Southern Pacific, $1.41; Atchison, $3.88; Louisville & Nashville, $4.62; Norfolk & Western, $8.45. Thus, a dollar of Norfolk & Western earnings is worth approximately six times a dollar of Southern Pacific earnings.

There is no lack of rhyme and reason in this; nor in the fact that any given level of earnings is valued at less than was corresponding earning power in 1940 or 1939; and in the fact that current earnings of most stocks are worth more than they were in the period of World War I.

Stock prices are influenced by innumerable tangible and psychological factors. But in the price consensus—arrived at through the varying opinions and calculations of a great number of investors and speculators—one general principle is nearly always reflected. It is the principle of distrusting the extreme, the abnormal, the unusual, the temporary.

High equity earnings for Southern Pacific are unusual, but normal for Norfolk & Western. Big earning power for Savage Arms is something brand new and of conjectural longer range duration, while du Pont's earning power is considered to be normal, whether in war or peace, and likely to continue in a long term growth trend. Such distinctions, more than anything else, account for the great variations in market valuation of earning power.

The gain in war-time earnings of the vast majority of companies is far less extreme than it was in World War I. For instance, 1941 net profit of U. S. Steel was only 43 per cent as great as that of 1916—peak World War year—although shipments were about 20 per cent greater. Because current earning power is less extreme, it is valued by the market substantially higher than at any time in 1916.

You wouldn't expect Chrysler to fall to zero in a year in which it had no earnings. There is large value in plant assets, working capital, trade standing—and potential earnings at some future time. Similarly, when the market gets much more bullish than at present, you can't expect the best of "war babies" to go quite through the roof merely because it's in the money now.

★ ★ ★ COMING IMPORTANT FEATURES ★ ★ ★

1942—Re-appraisal of Earnings and Dividend Forecasts

Part III—February 21st Issue:
Steels, Building, Metals, Liquors, Movies, Merchandising Issues

Part IV—March 7th Issue:
Aviation, Oils, Motors and Accessories, Tires, Chemicals

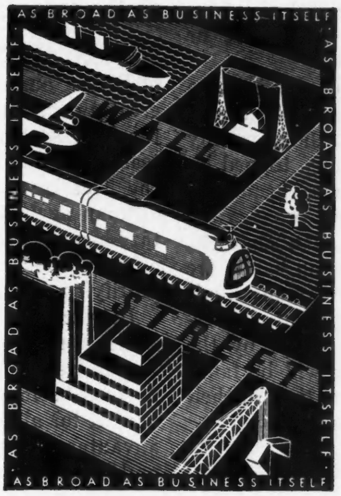
Westinghouse Electric Photo

All metals are "precious" these days—including even gold, platinum and silver! Here the worker is applying a gold-platinum paint to porcelain insulators, forming a metallic base for solder which otherwise would not adhere to the slick porcelain surface. Silver—relatively plentiful—is coming in for new and revolutionary industrial uses.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



The Trend of Events

NATIONAL UNITY . . . Let's not kid ourselves. It was widely assumed that — thanks to the Japanese — we really got unity on December 7. Did we? Something is still missing. Make due allowance for the selfish side of human nature—common to all beings everywhere and never completely eliminated even in the crucible of war. Still there is missing a unity and cooperation anywhere near equivalent to that developed in free England.

Congress is criticizing the past actions of every group—except itself; and its constructive contributions to the conduct of this war are virtually nil. It has just adopted, after six months of monkey-business, a "price control" bill which is a political travesty and a sell-out to the farm pressure groups. Profiteering is all right for farmers.

Naturally, this favoritism for agriculture invites renewed demands by the labor unions, quick to seize any excuse for their own variety of profiteering. The executive board of the C.I.O. has just recommended that all member unions immediately seek substantial wage increases "to offset the rise in living costs and taxes." The fact is that factory wage increases have outrun the rise in living costs and taxes by a wide margin. Apparently the war means nothing to organized labor except an opportunity to be exploited for self-gain. With so much of industry at capacity, further rise in wage costs can only raise prices—adding more fuel to the inflationary fire—or drastically reduce profits. In the latter case Government revenue from corporate taxation would be the chief sufferer.

Nor are the rest of us beyond criticism. Most of us are giving less thought to what we have to contribute in the war effort than to ways and means of avoiding or minimizing the disruptions in our business and personal affairs. This applies to the business men who are belatedly and of necessity seeking profitable war orders which they were capable of handling months ago. It applies to the housewives who are busily doing their bit for inflation and scarcity by hoarding sugar, soaps, clothing and Lord knows what else.

Apparently we will not see real unity, high morale and genuinely all-out effort until one of two things happens: until we get from President Roosevelt the kind of inspired, candid, non-political leadership that Churchill gives to the British people; or until we get more and harder kicks in the face from the deadly enemies we are supposed to be fighting.

RATIONING . . . Widespread consumer rationing will be a novel experience for Americans, but it is an inescapable accompaniment of total war. Not even this richest

of all countries can provide simultaneously the implements and materials for war and the normal supply of consumer goods.

Rationing is not only a device for the fairest distribution of a short supply of goods. It is by far the most effective single instrument for control of price inflation, especially if coupled with Federal licensing of sellers or other means of assuring compliance with regulations and dealing out punishment for willful violation. Without it, scarce goods would go to those able or willing to pay the highest prices.

It began with extremely drastic rationing of tires. The nearby sugar rationing will sharply reduce the current abnormal demand but will cut normal consumption only moderately. For those who do the rationing, topped by the energetic Mr. Henderson, there are many headaches and no glory of popular acclaim. They will broaden the list of rationed goods no more rapidly than absolute, demonstrated need dictates. So consumption habits are not in for quick revolution—and, as regards many kinds of goods, can be maintained for some time out of presently accumulated household inventories. But by the end of this year the ration list probably will be fairly extensive and retail merchants, for the first time in their lives, will not need to urge customers to buy.

WAR PROFITS . . . The report of the Vinson Committee on profit margins of naval contractors—and the "excess profits" of labor unions—represents a great deal of demagogic propaganda and very little objective fact-finding. To take the labor unions first, there is plenty to be criticized—but citation of the funds, not so very great, now reposing in the treasuries of certain unions has little or nothing to do with the case. It is not a crime for unions to collect dues, initiation fees, etc. And since nearly 10 million people belong to unions, the aggregate funds handled can't be chicken-feed.

To prove "profiteering" on naval contracts—or rather for blanket smearing of the firms engaged in this work—the Committee cites large percentage profits on a few very tiny contracts. Suppose a manufacturer gets a dozen assorted contracts from the Navy, some for work that he has never done before, and ranging from a few hundreds of dollars up to millions each. It is difficult to figure accurately the costs and profits on experimental jobs. One contract may bring a bigger profit than the manufacturer expected, another may result in actual loss.

The Committee conceded—but failed to emphasize in its press release—that out of a total of 19,086 contracts examined the average aggregate profit, before Federal income taxes, was less than 6 per cent on finished work; and that average "realized or expected profit" would be 7.99 per cent. How "expected" profit on future deliveries can be accurately lumped into the average is beyond our understanding, for some of the work will be finished many months—in some instances years—hence; and any naval contractor who can figure his actual costs on these deferred jobs would have to be clairvoyant.

Even if the contractor is not subject to the excess profits tax—and a great many are—the normal corporate tax would reduce an operating profit of 6 per cent to a net profit of scarcely more than 4 per cent. This may look like "profiteering" to the Vinson Committee, but not to our eyes. Of course, all business enterprises, like the rest of us, are going to have to pay higher taxes. But why not approach the problem frankly and fairly? The most equitable and logical method will be to increase the normal corporate tax and increase the rates on the present system of excess profits taxation.

THE RED ARMY . . . From the start of the Nazi invasion of Russia our military experts and armchair strategists greatly over-rated the Germans and greatly under-rated the Red Army. It is now possible to single out with reasonable clarity the factors which made it possible for the Russians to stand up through the summer and autumn against the most powerful offensive in all military history, and then to launch the great winter counter-offensive which has made—and continues to make—such gratifying progress.

Between the consummation of the notorious Stalin-Hitler deal in 1939 and the start of the Nazi drive into Russia last June there was an interlude of approximately 21 months for the Russians. It is evident that Stalin used it for all-out preparation of the Red Army, taking advantage of the lessons learned in his attack on Finland and of the lessons taught by the German campaigns against others. It was that extensive and intensive preparation—plus the courage and high morale which Russian soldiers have always shown in fighting for their own soil—that enabled the Reds to stand up against the unquestionably great German army.

In the winter fighting—which the Germans were not adequately prepared for—the effectiveness of their mechanized equipment has been tremendously reduced. With tanks and aircraft virtually out of the fray, the previous German superiority evaporated. Indeed, for the time being, definite superiority has passed to the Russians. They have two advantages: (1) the "know-how" of operating in bitter cold; (2) they excel the Germans in quantity of foot soldiers and probably equal them in quality, and are far better equipped with cavalry and horse-drawn artillery, supply vehicles, etc. In addition, they are using the best of the tactical methods that the Germans themselves had demonstrated.

The most important question now is not how far the Germans retreat, but how much they lose in men, equipment and fighting effectiveness. In any event they can't undertake another major offensive in Russia before late spring or early summer. Meanwhile, it is up to us and the British to deliver all possible tanks and planes to the Russians. The fact that they are still in this war is by far the biggest break we have had.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 470. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, Feb. 2, 1942.

As I See It!

BY CHARLES BENEDICT

A LETTER TO AN ENGLISH FRIEND

New York,
January 30, 1942.

Lady R. D.,
Sussex, Eng.

Dearest Catherine:

Was so glad to hear from you, as I have been most anxious about you, although I should know that you are protected by your philosophy, your faith and your spirituality.

We are deep in this war now, and, as you know, all's well that ends well, and I am sure that it will end well for all of us. Despite the opening setback, we are in the right, and we *must* win.

It seems appalling to think that one man can destroy the security for all men, and that his followers, who can now see that his ideas are leading to utter chaos, will not draw back before it is too late, and while it is still possible to salvage the rest of the world. It must be, otherwise, that the ego of man is far greater than his common sense.

Already vast areas have been laid waste. Millions have been deprived of the last vestige of security, down to the smallest essentials of life, and now this destruction and disaster is continuing to spread. Our philosophy of life must be very warped indeed for men to be willing to create such havoc to obtain power, when the span of existence in this world is only a few short years.

Men do not have to make these same stupid mistakes over and over again, because the history of every European and Asiatic country abounds with the evidence that leads to the reason for the rise and fall of great nations. Where is the glory that was Rome, Greece, the Holy Roman Empire of the Germans, the vast wealth of Persia, of China, the great empire of the Japanese Samuri, Spain? I could go on and on, and go further back into the early history of man, and find as many examples, all of which have ended in disaster for ambitious and greedy peoples and nations.

The guide to the sound, personal conduct of man in his relation with his fellow man was given to the world by the very people that Hitler seeks to destroy, the Jews. The Ten Commandments, which supply a code of ethics for men to live by, are the essence of common sense conduct. No wonder the ancient Hebrews considered the writing on the tablets a message from God! They knew that the faulty thinking of man was incapable of such judicious reasoning!

Men will never learn, for already the lessons of the last war have been forgotten. Forgotten, too, is the fact that the economic and trade advantages, fought for by the belligerents, were lost by them as a result of the last war.

Today, the Japanese are fighting for control of the Dutch East Indies, in their seeking to possess the raw materials which they have had to buy and pay for; and yet, as events are shaping themselves, it will do them no good, because they are sure to lose the markets on which their very life depends, as a result of the repercussions of this war, for their highly industralized economy, tied to starvation wages and slave-produced raw materials, will destroy the economies of the rest of the world, and make it impossible for anyone to buy their products.

War has always been a great adventure, and has always set in motion incalculable forces that have brought *lasting* victory to no one. Only for a very short period has any nation gained from war, as evidenced from the history of all nations.

There is only one way to outlaw war, and that is by creating economic security for the masses, along the American system, for democracy is not merely a political system. (*Please turn to page* 517)

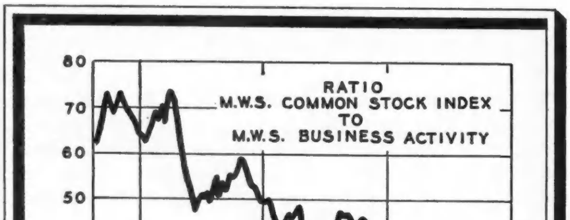
Gauging Divergent Market Trends

Barring decisive news developments, we believe the immediate odds are against important movement either way in the market averages. But there is no lack of selective opportunities—and pitfalls—in individual securities, as analyzed below.

BY A. T. MILLER

Summary of the Fortnight: In the face of much discouraging war news, chief market reflection was increased dullness. Net changes in the Dow-Jones averages was small and in our much broader weekly index was nominal. Most significent recent development has been further pronounced weakness in many formerly popular "blue chips."

So far as there is any general trend to this market, the current performance gives rather scant encouragement to either bulls or bears. The larger the number of stocks in one's measuring rod, the more insignificant becomes the recent fluctuation. For instance, our weekly index of 270 issues declined merely 2/10s of 1 point over the past two weeks and thus far continues to hold above the December low by a much more comfortable margin than is shown in the Dow-Jones industrial average.

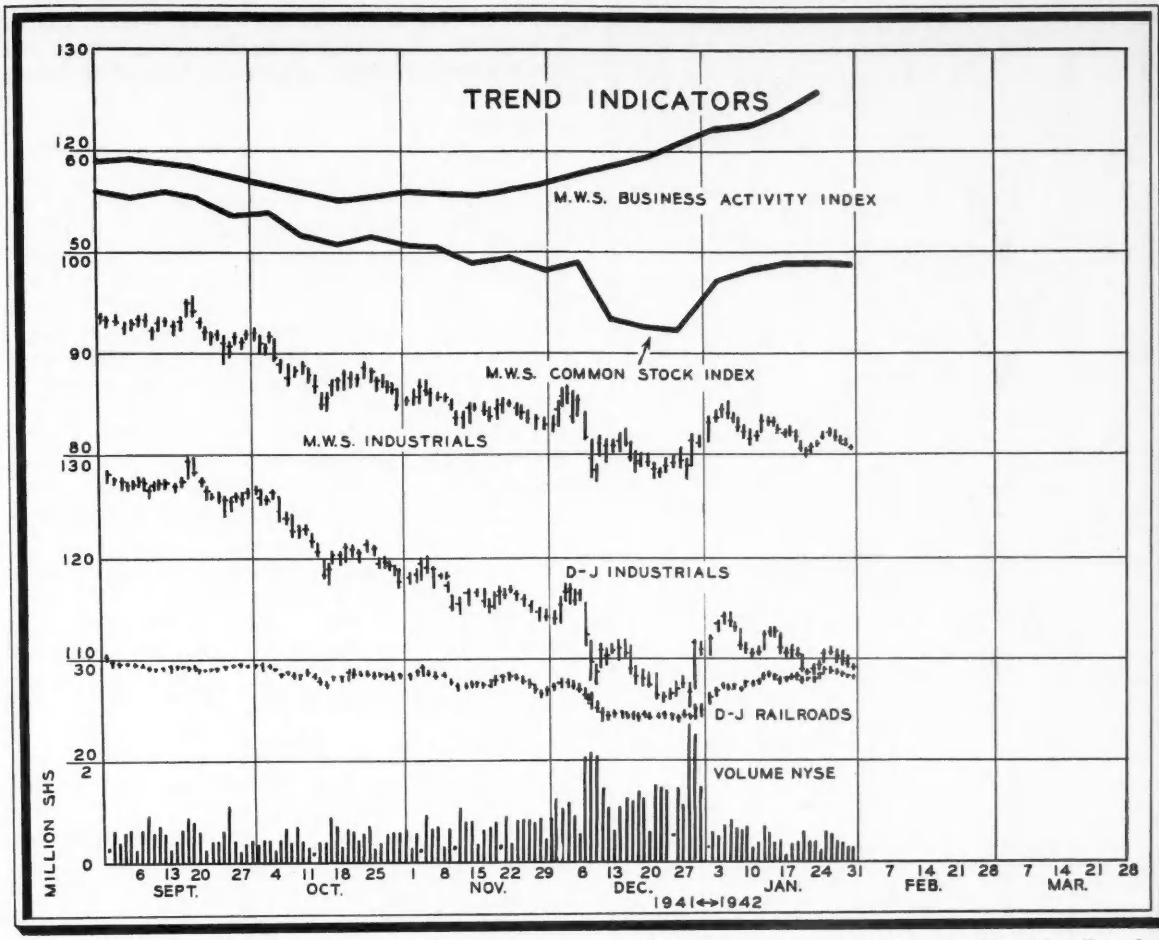


Conversely, the more limited is the representation in the "average" used, the greater are the divergences and cross-currents. The Dow-Jones industrial average—which is important because many people accept it as genuinely representative of market trend—is actually performing worse than the market because an important percentage of the 30 issues of which it is composed consists of high priced stocks which happen to be individually under liquidating pressure.

For what it is worth, the intermediate and longer range pattern of this average thus far continues bearish. Over the past several years, of course, the sequence has been a succession of lower tops and bottoms. The same is true of the movement of the past several months and of recent weeks. For instance, on the rally from last December's low, the best level was reached in the first week of January at 114.22; on the next upside try the best figure attained was 112.59 on January 15; and in the minor upturn which culminated on January 27 the top was 110.68. Up to this writing, if we can judge by tendency of volume to decline on small recessions, the December low of 106.34 does not appear in imminent danger of violation. Since the rail average has met all requirements in signalling at least an intermediate upward trend, a rise in the industrial average above January high of 114.22 would be accepted by Dow theory adherents as definitely bullish. For some time, however, orthodox Dow interpretations of the chart formations have not worked well—in a market dominated by war and tax developments.

Currently, the rails look "tired." They declined fractionally for five consecutive sessions through last Saturday, after having made a new rally high early in the week. Among individual industrials, a reduced number of special situations managed to show net advance of any significance last week, with the sugar group most consistent in marking up new highs.

Indeed the most pronounced special situation changes recently consisted of further declines in a number of high priced stocks and others of above average investment quality under normal standards of valuation. In most of these cases vulnerability to prospective war time



taxes is the main factor tending to pull down the premium price for "quality" and to narrow at least to some extent the wide gap between price-earnings ratios of these types of equities and those of the rank-and-file.

Weak sisters of this type include American Chicle, Beech-Nut Packing, Bon Ami, Bristol-Myers, Coca Cola, du Pont, General Foods, Hershey Chocolate, International Business Machines, Jewel Tea, May Department Stores, Melville Shoe, G. C. Murphy, Monsanto Chemical, Norfolk & Western, J. C. Penney, Sterling Products and Vick Chemical.

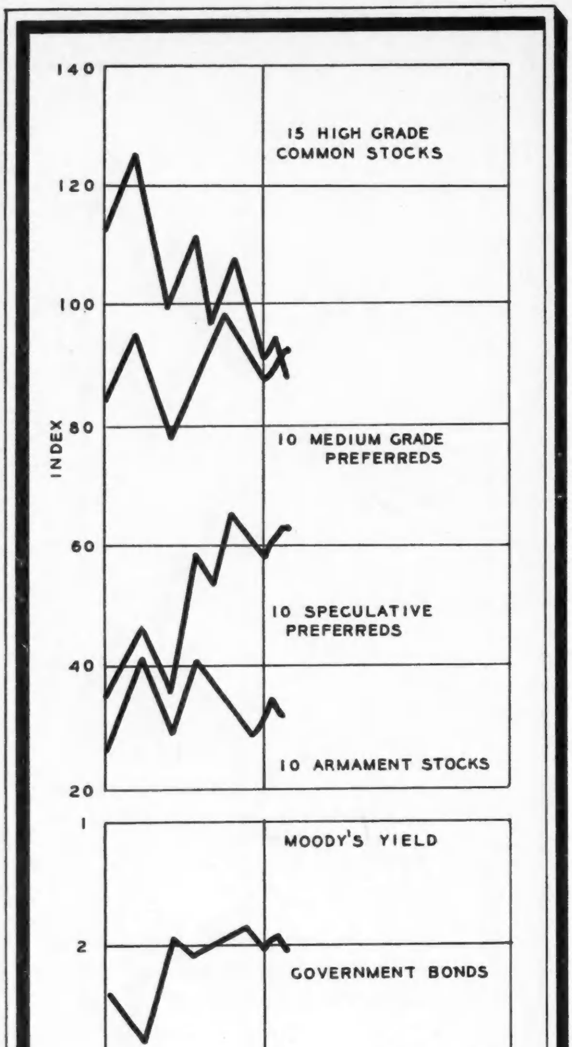
Current action of most aircrafts and merchandising issues is poor. In addition to sugars, fair to good support is reflected in the leading motors, selected motor accessories, non-ferrous metals, motion pictures, steels, rail equipments, rails, tobaccos and shipbuilding shares.

Certainly under normal market reasoning, leadership by the "cats and dogs," together with marked weakness in many "quality" stocks, can not be considered a bullish phenomenon. Obviously, to get a sustained rise in the market as a whole, we must have either a turn-around in the "quality" stocks or we must accept a changed type of market leadership. We see no basis at the moment for attempting to predict which it will be or what combination of both it might be. It can be noted with much logic, however, that war dislocations are a great redistributor of market popularity, among other things. War conditions make many of the erstwhile "dogs" at least considerably less doggy and lower the quality of many of the erstwhile "quality" stocks.

At the start of this war our average of 15 high grade common stocks stood at 113.17. At present it is 87.63. The highest level attained within the war period was 124.62 in January, 1940. The low of 100.22 made just after the collapse of France has now been extended by nearly 13 points. The low of 90.86 made in late December has now been extended by more than 3 points.

Armament stocks, as measured by our average of 10 representative issues, at least have retained some net gain for the war period as a whole—to be precise, 4.04 points or about 14 per cent. The level today is 31.75, fractionally above the December low and also fractionally above the low made in the late spring of 1940 in the panic which accompanied the German drive into France. This pattern is bullish only in a negative way—but persistent resistance close to present levels is suggested, and stocks which show sustained resistance at a generally low level can usually be counted on to be in the upward parade when speculative and investment sentiment makes its turn-around.

Of course, there is never a valid reason—less so now than normally—why investors should center either all their hopes or all their fears on common stocks. Income and profit are where you find them—and on the whole



throughout this war to date it has been much easier to find both in medium grade and speculative preferred stocks and bonds than in the average equity. As will be noted on the accompanying charts, our average of 10 medium grade preferred stocks and that of 10 speculative preferred stocks continue to hold fairly close to their recovery highs. Anyone who had bought the 10 medium grade issues at the start of the war would now have about 6 per cent net gain, plus excellent income return. The 10 speculative preferreds show a net gain of about 91 per cent for the war period to date and have returned high income yield in addition. Comparable results have been obtainable in many speculative bonds, particularly among rails. The basic reasons behind this are still effective; and though future appreciation in such issues can not be expected to match that already scored, many are still attractively priced for both income and substantial profit potential. Selected issues among these types have been frequently recommended in special analyses in the Magazine; and new recommendations on speculative bonds are made in this issue on page 484.

The market on the whole remains psychologically apathetic to the war news—good or bad—to date. News from Russia continues good so far as it goes. It does not get response from the market partly because of bad news from other fronts but chiefly because it is not yet possible to appraise the longer significance of this German reverse.

Events in the Far East also are not yet decisive in the sense of full victory for the Japanese or a really significant turning point in the fortunes of the Allies. Thus recent Allied naval successes—and the successful attack by substantial elements of our Pacific Fleet on Jap ships and installations in the Marshall Islands—leave the market unimpressed.

So far as the averages go, higher corporate taxes also have been adequately discounted—but uncertainty as to rates and forms of taxation nevertheless continue to restrict investment and speculative decisions, especially on the buying side. Against this, there is increasing hope that Congress, with Treasury consent, will at last make a drastic revision in the capital gains tax, which, though aimed at increasing Treasury revenue, would be of major bullish significance in longer range potentiality. A bill has actually been introduced, with substantial backing, to segregate capital gains and losses from other income, to permit full deduction of losses from gains, to permit a 2-year carryover on deductible losses, to eliminate present distinction between long term and short term gains and to tax all net gains on a flat 10 per cent basis. It would not be a break for the income tax payer—who could no longer use tax sales to lower liability for income tax—but it would be a big break for the stock market. Almost too good to be true—but we have an idea it is going to happen.

Conclusion: Barring decisive change in the war news, we doubt important movement either way is likely in the general run of equities over the immediate future. We see no reason why those who can comfortably sit tight should not do so. On general principle, at a low level of prices, we would prefer selective, scale-down buying in periods of recession, as against unnecessary liquidation.
—Monday, February 2.

Inflation takes a New Turn

N. Y. Times Photo

BY H. M. TREMAINE

THE recent sharp enlargement of our war program **calls** for re-examination **of the inflation problem.**

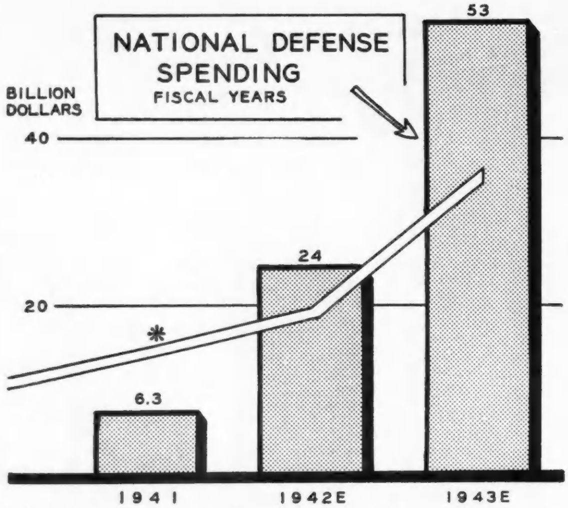
In brief, it now looks like **more and faster inflation than seemed likely a few months ago**—unless tight **Government controls are promptly** devised and vigorously applied.

Our war expenditures at present are running at a rate of approximately 24 billion dollars a year or 26 per cent of total national income. It is estimated that only 5 million people, or less than 10 per cent of the gainfully-occupied population, are directly engaged in war production.

Yet already prices and the cost of living have advanced substantially, shortages are rapidly increasing and soaring gains in retail trade reflect a rush of consumers to buy and hoard numerous types of goods which will be non-available or scarce in future.

Developments of early 1942 greatly increase the steam pressure within the inflation boiler. First, the President has projected war expenditures of approximately 53 billion dollars for the twelve months beginning July 1. Second, the centralization of authority and responsibility for war production and procurement in the hands of a single administrator—Donald M. Nelson—implies that the conversion of our economy to full war production will now proceed at a much faster pace. Along with these changes, which will probably put 20 million people at direct war work by the end of 1943, the size of the Army is to be largely increased.

The "slack" in employment and use of industrial facilities has already been substantially eliminated. From here on there will be little, if any, increase in the aggregate of civilian purchasing power, the physical volume of production available for civilians will be sharply reduced and further rise in national income will be largely the measure of price inflation. On this basis it is tenta-



*Reporting Member Bank Investments in U. S. Government Obligations.

tively estimated that national income in the twelve months beginning July 1, the Government's 1943 fiscal year, will approximate 110 billions of dollars.

In other words, if the Government spends 53 billions on the war effort in the next fiscal year, that would represent some 48 per cent of the national income, as compared with 26 per cent at present. Relatively, it would represent almost as much concentration of total productive effort on the war as has come about in England.

All of which has a direct bearing on the question of inflation. For one thing, the ratio between total money income in the hands of consumers and total supply of civilian goods will be further and sharply increased—more because of shrinkage in supply than in increased income but partly for both reasons. This is where inflation immediately touches you, through commodity prices and the cost of living.

For another thing—since the Government cannot hope to finance much more than half of its total war costs out of taxes and borrowed savings—we face a bank credit inflation the like of which has never been known before. Money obtained this way is unique, differing completely from tax money or money borrowed from people who have saved it from earned income or income on investments. It is manufactured bank money. A commercial bank gets Treasury bonds, notes or bills which are listed as assets on one side of its books, and creates on the liability side an equivalent deposit to the credit of the Treasury. This differs from fiat or "printing press" money in one all-important respect. The Government agrees to pay a specified interest on these obligations and to redeem them at maturity—which for all practical purposes means to refund them.

If the question of bank credit inflation fails to get you excited, are are not to be blamed for apathy or ignorance of high finance. Between 1933 and 1937 you heard many conservative economists and bankers warn of the dangers of loose fiscal policy and soaring bank deposits—but during most of the New Deal years prior to the beginning of the armament program it was actually easier for commodity prices, especially raw materials and farm products, to go down than up.

On an average, and despite the spurt of activity in part of 1936-1937, the period from the start of the New Deal through 1940 was one of continuing *deflation,* as reflected in large scale unemployment and in industrial volume far under capacity of our facilities.

There is no mechanistic or automatic relationship between the total supply of money—the bulk of which consists of deposits in the commercial banks—and the price level or the cost of living. For instance, by the end of 1936 total deposits had been expanded—as a result of New Deal deficit financing and imports of gold—to a level approximately twice as high as at the end of 1919, with the price level roughly one-third lower than at the end of 1919.

But in 1919 there was little or no economic "slack." The economists were not talking about "idle men, idle machines, idle money." Because we were making virtually maximum use of the then existing means of production, any additional increase in the money supply and the incomes of consumers was inflationary. But even before the armament program was launched, our total producing potential had been greatly increased not only in comparison with 1919 but also as compared with 1929. That is why the tremendous monetary-credit inflation did not "take hold" in a political environment which venture capital regarded as unfriendly, if not hostile.

But today we have a completely different situation. We are bumping against the ceiling of capacity and struggling with limitations of materials and skilled labor. Every three months an average of 500,000 able-bodied men are being withdrawn from the working population for service in the army or navy. Despite the change-over period in the consumers' durable goods industries, each month more people get new jobs than lose old ones. In short, the economic stage is perfectly set for real and dangerous inflation.

The Effective Controls

Before our transition to an armament economy, the effective controls of inflation were economic and psychological in the main. From here on, however, the economic, psychological and monetary factors are all on the inflationary side.

For this reason the monetary-credit prospect can no longer be an academic matter to you. It has a definite relationship to the commodity price level, to interest rates and the market values of gilt-edged securities—and a longer range relationship to growing governmental "management" of the financial machinery and the trend toward more and more complete governmental regimentation of the capitalist system.

It should take but a moment's reflection to realize that the New Deal's ability to get and spend huge sums of money—without any pain at all heretofore to the great mass of voters—is the real key to its political power and popularity. Especially under war conditions, its ability to continue doing so is beyond question—as has been promptly conceded by even the most conservative former critics of New Deal fiscal policy.

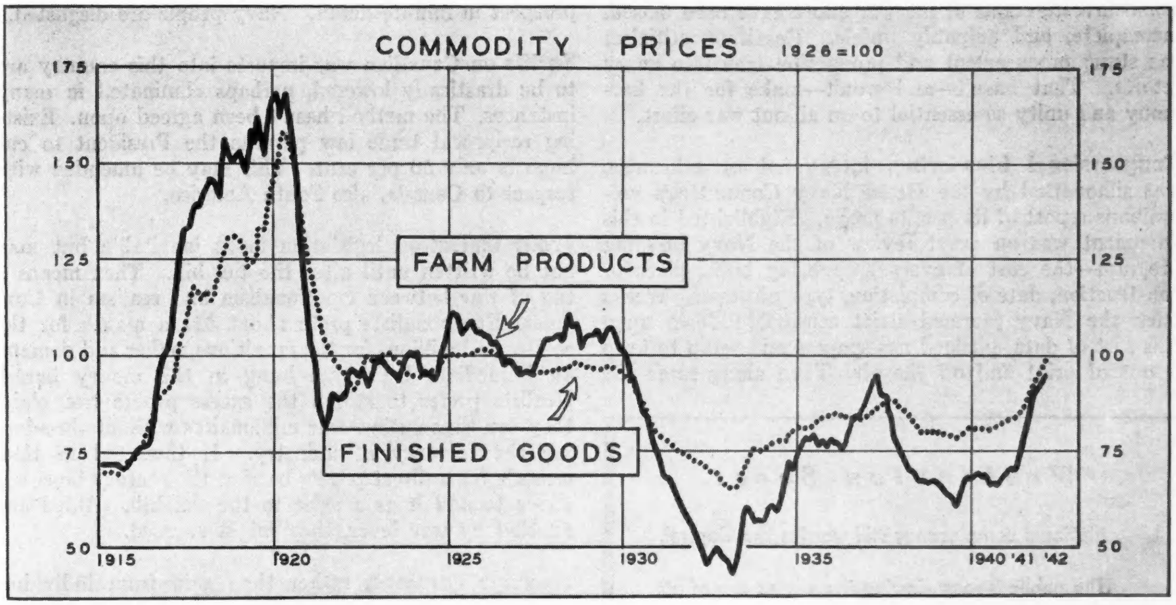
But it is now a foregone conclusion that interest rates have put bottom behind and that highest grade long term bonds have seen top prices. Don't let this statement lead you to hasty conclusion that a major decline in such bonds is to be expected or that this age of cheap money is over. All it means is that extremely cheap money will merely get slightly less cheap. The Government will continue to dominate the money market completely and the variety of controls available to it will suffice to keep interest rates at a generally low level—a very low level as compared to the average over the generation preceding the New Deal.

The chances are that for an indefinite time to come decline in highest grade bond prices will not exceed 3 to 5 points and will be spread over a considerable period of time. Indeed, the biggest relative rise will be in short term interest rates, as is already seen in a considerably more respectable rate on Treasury bills which not so long ago afforded banks a yield but a trifle above zero.

The shorter the maturity of a Treasury bond or note, the less is the relationship of interest rate to market provide from 12 to 15 billions—hardly more unless some type of compulsory savings-bond scheme is adopted. That would leave from 30 to 33 billions to be raised by bond sales in the open market.

This must be had from (1) wealthy individuals and corporations; (2) financial institutions other than commercial banks and consisting chiefly of savings banks and insurance companies; and (3) the commercial banks.

Wealthy individuals, heavily taxed, cannot be an important source of additional Federal bond money. For instance, Treasury tax statistics indicate that the aggregate income of people with incomes of more than $100,000 a year was only 370 millions of dollars in 1940 or one-tenth as much as in 1929, while for the same year aggregate income of people with incomes between $5,000 and $100,000 a year was 42 per cent less than in 1929. We have thus already gone far toward the politically planned redistribution of the national income. One result is that the Government is inevitably headed toward much increased reliance on "the masses" for support in financing the war effort, whether through taxes, forced loans or a combination of both.



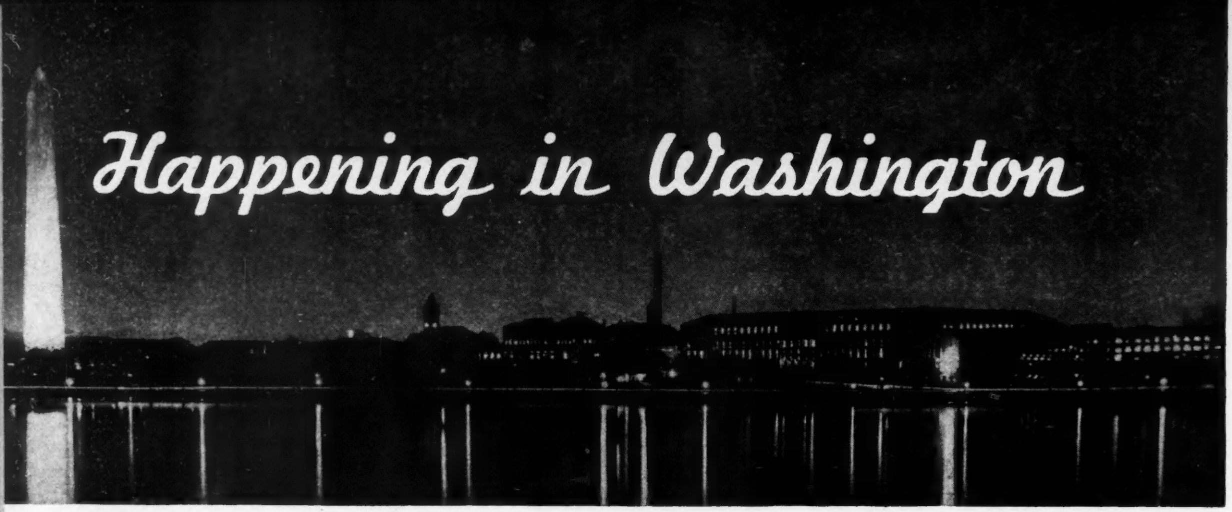
price. For this reason and the understandable reluctance of banks to load up heavily on long terms bonds at current high prices, it is quite certain that the Government's coming heavy financing through the commercial banks will consist predominantly of short-term obligations. In that manner, impact of the vast borrowing program upon long-term interest rates will be minimized—as also will be any threat of major disturbance to prevailing bond prices.

On the basis of the President's budget and tax estimates, as recently announced, it is indicated that over the next eighteen months the Government will have to borrow some 50 billions of dollars. The Social Security funds—which are promptly "invested" in Government bonds—may provide 5 billions of this, if Congress raises these levies by the 2 billions a year which the President recommends. Sales of defense bonds to investors may

What about corporations? All that are in black ink need to retain more cash to pay higher taxes. A great many also need more cash in handling swollen volumes of business. On the other hand, enterprises not essential to the war production will be unable to make normal outlays on plant and equipment and, therefore, a consible amount of idle cash will accumulate in depreciation account. It could just as well be invested in short-term Treasury obligations which are just as good as money and vice versa. But at best this would be a relatively small drop in the bucket of Federal borrowing.

Savings banks are already pretty fully invested; and, with higher income taxes and higher cost of living, new deposits will expand but little, if any. Besides, thousands of people who customarily make savings deposits are now putting new savings into defends bonds. Allowing for present surplus cash and (*Please turn to page* 512)

Happening in Washington



Charles Phelps Cushing

BY E. K. T.

Distressing distrust has developed between factions of Congress and the war organization. Recent congressional investigations of the war effort have been biased, incomplete, and palpably unfair. Resultant criticism has stung procurement and production men into angry retorts. That hasn't—and won't—make for the harmony and unity so essential to an all-out war effort.

Congressional blundering, intentional or otherwise, was silhouetted by the House Navy Committee's voluminous report of its profits probe. Highlighted in this document was an exact review of the Navy building program—the cost of every ship being built, place of construction, date of completion, type of vessel. Weeks back the Navy jammed strict censorship down upon this sort of data, pledged newspapers and radio to keep it out of print and off the air. Then along came the Navy Committee report, hundreds of copies printed, distributed all over the country, outlining the building prospect in minute detail. Navy people are disgusted.

> ### *Washington Sees:*
>
> National complacency still worries the Capital.
>
> The public is seen viewing the war as one of air and naval battles. That illusion is to be shattered. It's to be a Churchill war of toil and sweat and blood.
>
> Taxes are to be brutal. Labor reforms are to be jettisoned. Individual rights are to be crushed. Property rights are to fade. Most—if not all—the fundamental principles of Democracy are to be trampled underfoot by the war machine.
>
> All these and many more shocks are inevitable, but the public doesn't yet have a full comprehension of this inferno to come. That worries the policy makers. They yearn for a revival of the old World War fervor—patriotic frenzy, if you please—which inspired men to place their all on the altar of national security.

Tariffs on Canadian war imports into this country are to be drastically lowered, perhaps eliminated in many instances. The method hasn't been agreed upon. Existing reciprocal trade law permits the President to cut imposts only 50 per cent. This may be amended with respect to Canada, also South America.

Profit limitation legislation looks inevitable but may not be written until after the tax bill. That means a tug of war between emotionalism and realism in Congress. Emotionalists prate about $21 a month for the soldier and millions for the munitions maker and demand an immediate legislative bung in the money barrel. Realists prefer to stiffen the excess profits tax, claim they can thus outlaw war millionaires without threatening the solvency of industry. If thwarted in their crusade for a direct profits barrier, the oratory boys will strive to add it as a rider to the tax bill. Aided and abetted by war fever, they might succeed.

Average earnings, rather than gain from individual contracts, will likely be the basis for profit control legislation when and if enacted. The old Vinson-Trammel Act, repealed more than a year ago, restricted profits on each plane and ship contract. That was unsound, prevented contractors from balancing the profit on one order against the loss on another. Disposition now is to regulate profits by period rather than job.

Cotton goods shortage is just over the horizon. Existing mill capacity will be diverted to the Army and Navy. New machine procurement will be difficult if not impossible. Inevitable result will be shrinkage of civilian supply.

J. A. Krug is the man to watch in power pooling and rationing that's certain to come. He was OPM power chief, is staying on with the War Production Board. It was Krug who arranged last summer's power pool and

conservation for the Southeast. He did a good job. What's more refreshing, he pulled his men out of the area just as soon as rain ended need for regulation. Krug will be Don Nelson's right bower in the complex game of making electrical energy do the most work at the proper place and time. Krug is a former TVA man but likes to enlist his aides from private enterprise.

Federal Power Commission still tries to grab the job of dishing out electricity to defense industries. Commission Chairman Olds is jealous of Krug, wants him ditched. But the Commission will serve only as a reservoir of facts for the W P B, won't make the important decisions.

Priorities won't be abolished entirely but will be largely supplanted by allocations. As scarcity makes itself felt, priority ratings tend to depreciate like paper money in an inflation period; it takes a higher and higher rating to get any kind of delivery at all, and finally the whole system fails to provide the control that must be had. That point has now been reached in many commodities, will shortly be reached in others. The strictest form of distribution regulation through allocation must and will follow.

Small enterprise which can't be converted into war plants must shift for itself. That's Donald Nelson's prescription. He doesn't feel any specific amount of scarce materials (the Odlum plan) can be set aside for the small operators. He believes if the little fellow is to be saved he has to do a lot of saving for himself. Here's his formula. Sit up nights and rack your brains. Don't dump yourself into the Government's lap. Try to get a defense contract. See new sources of supply. Shift into some other kind of production. Strive to substitute some plentiful material for the scarce material you are accustomed to use. Even this formula can't save all small business, Nelson agrees.

Charles Phelps Cushing Photo

Junk to some people but a treasure to the steel mills. It had better not be priceless or it will be confiscated.

Petroleum situation is more dangerous than the public believes. Gasoline rationing along the East and West coasts is an imminent possibility. This time there will be no congressional investigation. Senators who probed Ickes' phony shortage last summer have quietly looked into facts and know the transportation problem becomes desperate.

Price cooperation between the United States and leading Allies is being applied to certain imports into as well as exports from this country. It effectively implements price control legislation. Already Britain and some of her dominions have fixed maximum prices which may be charged on some commodities purchased for American consumption or processing. That prevents bidding up for scarce materials, helps flatten the inflation spiral at home as well as abroad. The system will be expanded as the scarcity pinch becomes more hurtful.

Russian demand for sugar and wheat will largely determine extent to which these foodstuffs are to be rationed in the United States. Already the Surplus Marketing Administration is buying wheat and sugar for the USSR. Ultimate Russian needs can't yet be accurately gauged.

Radio taxation may be revived in the new revenue bill. Last year the Treasury recommended a special network and station tax estimated to snatch $10,000,000 annually. The House approved the levy. The Senate threw it out. Federal Communications Commission headmen opposed that assessment. Now they agree a well-considered taxation scheme should be applied to the industry. Chains and stations have been earning a new profit of around 66 per cent before Federal income taxes are paid, and there's spreading Congressional belief the radio men can spare more of this and stay comfortably within the black ink class.

First Lady of the land has another first. Rationers of airplane seats have given the President and Mrs. Roosevelt, members of their family, and White House attaches highest priority claim on air transportation. Army and Navy come next.

Non-defense economy is colliding headlong with determined efforts by Government agencies to justify their stranglehold on the public purse. Defense is the excuse. Typical is the comatose Federal Trade Commission. Before the House Appropriations Committee appeared Commissioner Edwin L. Davis to plead with pathetic eagerness against any reduction in the Commission's budget. His reason—the Commission was already doing so much special defense work that routine duties were being neglected. Further, he coyly suggested F T C might be drafted as price control kingfish. That's a sample of how the non-defense wheels will squeak for grease.

War Production Board is due for more streamlining. It's still too fat with duplica- *(Please turn to page 512)*

SHADOW of Coming Events

Charles Phelps Cushing

The Aftermath of Raw Material and Industrial Dislocations

BY LAURENCE STERN

DESPITE the serious reverses we have suffered, there is—rightly or wrongly—no general fear among the American people that we shall lose the war.

But millions of us—having something to lose from revolutionary change—are fearful about something else. We fear what the war effort, however successful in the long run, will do to the American free enterprise system. We fear the shape of things to come in the post-war world.

We know that the great war of a quarter century ago caused gigantic economic, social and political dislocation, and that it left in its wake a disordered and uneasy world in which the former freedom of international movement of goods, capital and men was either terminated or greatly restricted. We know that it is only within this post-war generation that any important number of our people have come to look skeptically at the values of a capitalist economy and have put their faith in a Government-supervised economy.

It goes without saying that a dangerous and most difficult road lies ahead. In their way, the post-war adjustments and problems inevitably will be just as formidable as the present task of winning the war—perhaps even more so. What we want is a free, orderly, secure world of maximum economic productiveness. We want more than may be humanly possible. For instance, "security" for all is not necessarily compatible with either freedom or economic productiveness.

We shall have to make a choice—or a more fruitful compromise than we have had in recent years—between two mutually antagonistic forces to which the destiny of all mankind is bound: the all-powerful super-State on the one hand, capitalist enterprise on the other. The former is on the make, the latter is on the defensive. All over the world, this is the golden age of the politician, the demogogue, the bureaucrat.

Economic theories, no matter how valid, will not shape the compromise that we will work out. It will be determined, as are most national decisions these days, within the political sphere, in terms of what politicians think a majority of the voters approve. And what the voting masses approve will be determined by events rather than theory or abstract logic.

It should not need to be emphasized that the kind of America we want and the kind of world we want will be utterly impossible unless we win the war and shape the peace. There is no future for that kind of America and that kind of world in the plans of Germany and Japan.

It *does* need to be emphasized that we can only win the war by a genuinely cooperative effort with the various other nations now alligned with us; that their needs and desires—as well as ours—must find reflection in the peace and reconstruction; and that the methods of, and results from, the war-time cooperation will largely shape American public opinion as regards our international responsibilities and opportunities in the post-war world.

I do not know what is to come and this article makes no venture in prophesy. Its purpose rather is to take a crack at the defeatism in which too many capitalists themselves are wallowing. For a decade the loudest voices in the land have been emphasizing the "shortcomings" and "failures" of the capitalist system, ignoring its virtues and achievements and potentialities; for years the only remedy offered for our supposed ailment has been more Government power, planning and regula-

tion. Persistent propaganda has confused us and shaken our former convictions.

Has the capitalist motor car worn out—or is it that drivers, not of the car's choosing, have run it into a tree, tinkered with its mechanisms with more enthusiam than knowledge, and then smashed it against more trees?

I believe the capitalist system would be functioning as well as ever today—if the World War had not smashed into it head-on; and if the post-war doctors and super-planners had not ignored the most obvious cause of its crippling wounds and made a thorough mess of their multitude of "cures." The heart of the capitalist system is the voluntary, self-planned actions of free human beings, actuated by the spur of self-interest. It can not function effectively in a hostile, suffocating, war-scrambled environment. Wherever, and for as long as, it has been permitted to have a sufficiently benign environment—most notably in the United States—its achievement and its benefits to all have been colossal.

Of course, the State will never revert to its earlier role as mere policeman or umpire, any more than it is possible for capitalism to return to *laissez-faire*. On the other hand, the evidence is clear that no more than a small minority of our people desire permanent, complete Government management of their economic affairs.

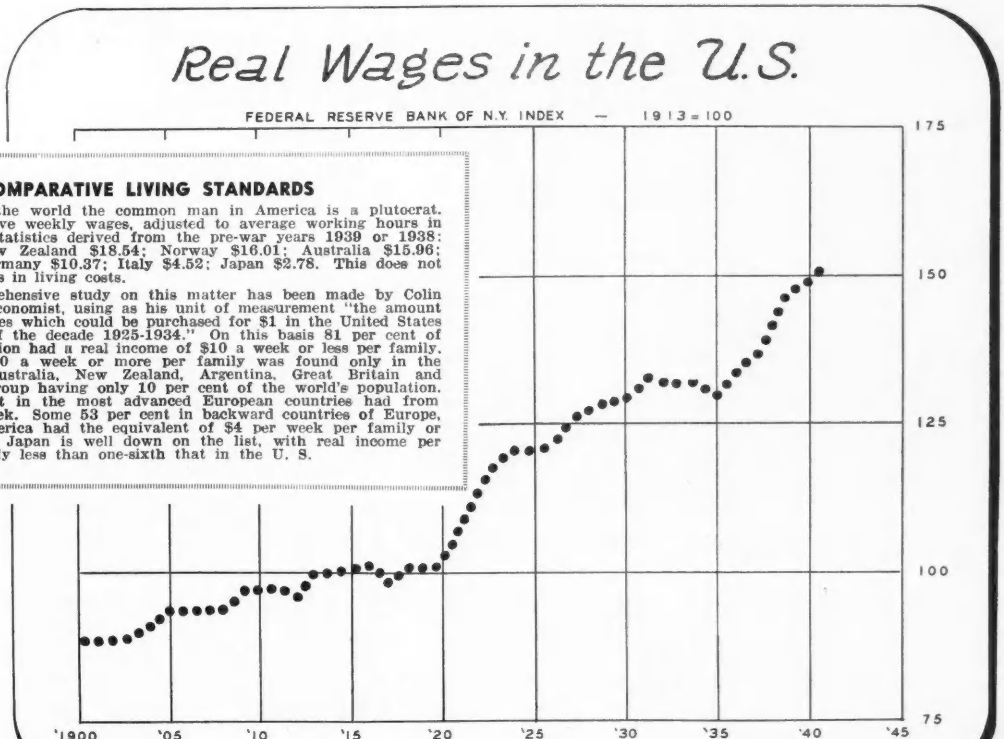
The most fundamental question of our age is that of arriving at a workable, reasonably harmonious adjustment between extremes—an adjustment under which State controls may be held to the *necessary minimum*, under which the vitally creative functions of capitalist initiative would be both preserved and stimulated, under which the maximum production and distribution of goods and services could be achieved.

If you ask me whether such an adjustment *will* be worked out in our time, the answer is that I don't know. If you ask whether such an adjustment is within the range of practicality, the answer is yes—the requirement being that the problem be approached with intelligent realism and good will. That is, of course, a large order in this day when the untruth and the half-truth are so widely accepted as gospel, and "good will among men" is a mockery given lip-service at Christmas.

Naturally, the decisions that we shall have to make on post-war international policy—including trade, currency relationships and loans—are beyond the province of private initiative. Nor can private initiative shape the general policy of our post-war demobilization and the reconversion of industry to peace-time production. The dislocations in industry, world trade and commodity supply are already terrific—and some of these shattered humpty-dumpties can never again be put back together.

The Permanent Shifts

As the most striking example of trade dislocation, we may shift permanently—depending on the character of the peace and the world reconstruction—from Far East rubber to domestic synthetics and/or natural rubber from Western Hemisphere sources; and Bolivian tin, plus partial shift to substitutes, may leave our market—the largest by far in the world—more or less permanently closed to tin from British Malaya. Thus, our national self-sufficiency would be increased—but at the



COMPARATIVE LIVING STANDARDS

To the rest of the world the common man in America is a plutocrat. Here are comparative weekly wages, adjusted to average working hours in this country, the statistics derived from the pre-war years 1939 or 1938: U. S. $27.04; New Zealand $18.54; Norway $16.01; Australia $15.96; France $14.63; Germany $10.37; Italy $4.52; Japan $2.78. This does not allow for differences in living costs.

The most comprehensive study on this matter has been made by Colin Clark, Australian economist, using as his unit of measurement "the amount of goods and services which could be purchased for $1 in the United States over the average of the decade 1925-1934." On this basis 81 per cent of the world's population had a real income of $10 a week or less per family. Real income of $20 a week or more per family was found only in the U. S., Canada, Australia, New Zealand, Argentina, Great Britain and Switzerland—the group having only 10 per cent of the world's population. Another 9 per cent in the most advanced European countries had from $10 to $20 per week. Some 53 per cent in backward countries of Europe, Asia and Latin-America had the equivalent of $4 per week per family or less. Industrialized Japan is well down on the list, with real income per family now probably less than one-sixth that in the U. S.

expense of proportionately reduced exports in the future to the Dutch and British.

The most significant change of all, however, is the now rapid acceleration of industrialization in many nations whose economies formerly were largely or completely dependent on exchange of exports of raw materials and agricultural products for manufactured goods. The beginnings of this change go back many years, for the raw materials nations have been keenly aware of the disadvantages of their position and of the advantages of more balanced and more self-contained economies. The trend was greatly quickened by World War I and the multiplication of nationalistic trade barriers thereafter. This history is now repeating itself, only more so.

Especially notable progress in development of manufacturing industries is being made in India, Canada and Australia. But the trend is virtually world wide. Each year for country after country the routine reports of the Department of Commerce refer to the establishment of new industries or governmental moves to foster new industries. It was going on, before the war, in Brazil, Argentina, Chile, Ecuador, Uruguay, Cuba, Siam, Netherlands East Indies and so on. In most cases, the main emphasis—as was the case initially in the older manufacturing nations—is on light consumer goods industries. The capital goods industries come later but, even as to this, some former raw materials nations are well started, especially India and Canada. Until war needs for them became acute, for some years we, the British and the Germans had been exporting goodly quantities of machinery and machine tools to "backward" countries.

Assuming the Allies win the war, the long run implications of world industrialization are more startling for Great Britain than for any other major nation. A very large part of her normal national income has been founded on exchange of manufactures for imports of raw materials and foods, upon the yield from foreign investments of her nationals, and upon shipping and insurance services relating to international commerce.

Thiokol, synthetic rubber, being milled preparatory to its compounding with other materials to make a finished rubber product.

In 1936-1937 our total foreign trade, export and import, was equivalent to 8.4 per cent of our national income. In 1923-1925—when we were making foreign loans, the ratio was about 12 per cent. Such calculations are misleading, however, for to various of our industries exports normally have been very important, and others have depended heavily on imported raw materials. It would be similarly misleading to say that the steel industry is not particularly important because the normal dollar value of its output is equivalent to a relatively small percentage of our total national income.

The post-war period will no more bring a restoration of the world of 1935-1939, than post-1918 brought back the world of 1913. Whatever the new international order may be—presumably to be shaped chiefly under the leadership of the United States and Great Britain—it will have to take spreading world industrialization into account.

There are two ways of looking at this problem. One can take the short range, pessimistic view which emphasizes severe competition for world markets for exported manufactures. But the long-range view can be on the optimistic side. For instance, there was a time when the U. S. was a raw materials nation, far secondary to England in industrial development. Later we became a great industrial nation—with the world's highest standards—and we therefore competed with Britain for world trade in manufactures. Was the long-run effect adverse to the British? On the contrary. The growth of our rich internal consuming market resulted in lifting the aggregate of our imports from the British and all other exporting countries, though it radically changed the composition of our imports.

The fact is that economically this world is, and long has been, inescapably homogeneous in considerable measure. Whatever the political divisions and the lines on the map—and despite governmentally-made barriers to international commerce—economic isolation is a myth. The ups and downs of our business cycle are almost instantly felt throughout the world and vice versa.

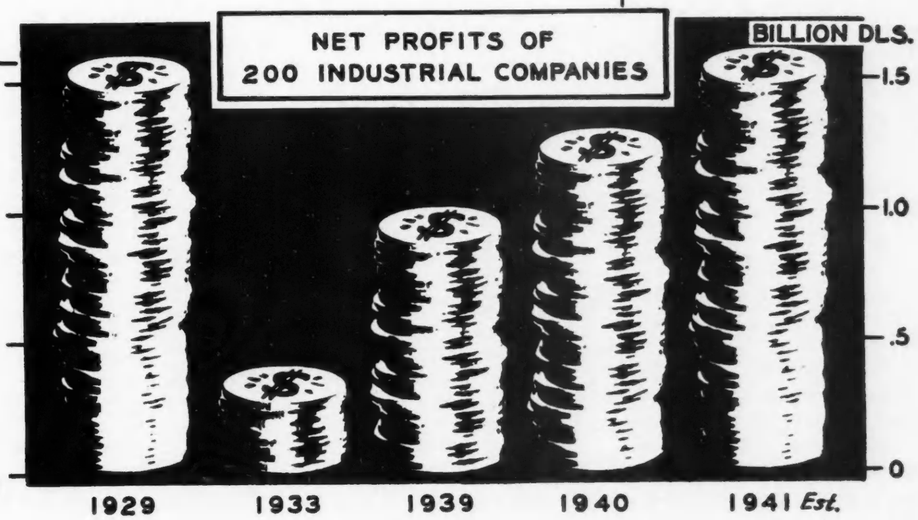
A few nations still believe it is possible to get rich by conquering and plundering *(Please turn to page 511)*

Sawders from Cushing

The world's largest tin mine and concentrating plant located in Llallagua, Bolivia.

What 1941 Reports DISCLOSE FOR— *1942*

BY
WARD
GATES



YOU are now receiving—or will soon receive—the annual income statements and balance sheets of the corporations in which you are a shareholder. Always this factual material provides the most complete information available to you in appraising the factors and trends affecting, for good or ill, the securities into which you have put your money. But under today's conditions it is more essential than ever before that you give these accountings your close study, as we shall see herein.

A great war is the most violently disruptive force known to mankind. And for the United States this is really the first "total" war in the sense that no individual and no business enterprise can be immune to its revolutionary influences or to the demands made by it under the accepted principle of universal service. The broader economic changes incident to war are familiar to readers of this publication. Our purpose here is to note, among other things, the significant repercussions upon corporate accounting and financial administration.

For the first time in many years numerous companies are faced with a "working capital" problem. Swollen volume of business brings sharp rise in inventories and accounts receivable on the one hand; and in accounts payable, in reserves for taxes and—in some instances—bank loans, on the other side of the ledger. There is often a heavy drain on cash; and even where this total does not decline there is nevertheless a sharp decline in its normal ratio both to other current assets and to current liabilities.

It is important to emphasize—as some stockholders forget—that the year's "profit" reported to them is a bookkeeping figure. If your company states that it had a 1941 net income of $10,000,000, that does not necessarily mean that such profit is in the form of cash in the bank, nor that it necessarily has $10,000,000 more cash than it had at the close of the preceding year. A goodly part of the bookkeeping profit may be tied up in the form of inventories and bills receivable.

Because of the premium on cash—as well as a variety of other reasons—the general tendency among corporate directorates in war time is toward conservatism in dividend policy. The other reasons include prudent allowance for upward tax changes; radically higher depreciation charges to allow for abnormal wear and tear on equipment under forced-draft operation; and numerous "contingency reserves." There is a general tendency to minimize, in one accounting method or another, the influence of changing inventory values upon earning power. Looking ahead to the unpredictable end of the war and to difficult post-war adjustments, there is a common tendency to conserve physical and financial resources as far as possible; and, of course, to "write down" unavoidable additions to capital facilities as rapidly as the tax laws allow.

United States Steel is the first of the industrial giants to report. Earnings of $10.43 per common share, comparing with $8.84 for the preceding year, were moderately less than had been generally expected, but were held down by sharp rise in allowance for depreciation and depletion and by higher deduction for contingency reserve. In the fourth quarter, profit of $1.61 was approximately half of profit of the third quarter and also far under profit for the fourth quarter of 1940. However, special contingency reserve of $25,000,000 was set aside during the year, of which $11,500,000 was charged off in the final quarter. Moreover, the depreciation and depletion charge for the quarter was more than $16,000,000 greater than for the corresponding quarter a year ago, thus accounting for a disproportionate share of the year's total increase of $24,637,000 in this item. If a company is not particularly anxious to show maximum earning power, this is one way to do it.

Bethlehem Steel made a relatively poorer showing, profit of $9.35 per share representing a sharp drop from $14.04 per share earned in 1940. This was partly due to heavy amortization of new war plants, depreciation and depletion charge being increased by $12,170,000 over the preceding year. Biggest factor, however, was tremendous Federal tax bill. This was $83,300,000 or about 72 per cent as large as that of U. S. Steel, although Bethlehem's earnings before taxes were only some 50 per cent as large as those of Big Steel. The year's Federal taxes amounted to more than $28 per share on Bethlehem stock, against some $14 per share for U. S. Steel. Although balance sheet has not been issued, it was stated that cash increased by approximately $33,000,000 during the year to $117,532,000. Wage demands now being made would exceed the company's total 1941 profit and prospect for off-setting gain in volume is not bright.

Here is something to think about: Dresser Manufacturing Company appears to be earning money at a rate of about $3 per share a year. It paid $1.50 in dividends in 1941, which was 25 per cent less than in 1940. It would like to continue at least the $1.50 rate, but needs more cash to handle expanding volume. So stockholders will be asked to approve a 10-year loan of $1,500,000, partly to provide working capital and partly to take care of dividends. It is something new to have so much business that you have to borrow money to take care of dividends!

The meat packers had the best year in a long time. How was it, then, that Morrell & Company reported earnings of only $4.38 a share for the year ended November 1, a goodly dip from $5.12 earned in the 1940 fiscal year? The answer is bookkeeping. Inventory valuation was long a headache to the meat packers, boosting profits when prices advanced during the year, but knocking the daylights out of them when the reverse happened. So Morrell, in common with the most of the industry, has now adopted the last-in-first-out inventory system. Had the accounting method of 1940 been retained, profit for the 1941 fiscal year would have been $7.23 a share or nearly $3 more than was reported and, of course, a sharp gain over 1940.

Sales Up, Profits Down

For the tobaccos it was a good year only in sales. Despite record gross, profits were nipped by higher operating costs and the big boost in income taxes. Net of Liggett & Myers fell from 1940 figure of $6.02 to $5.22.

Companies Showing Decline in 1941 Earnings

	1940	1941
Bethelem Steel	$14.04	$9.35
Continental Baking	1.01	.80
Island Creek Coal	3.65	3.05
Hat Corporation	1.03	.89(c)
Reynolds Tobacco	2.55	2.32
Servel	1.67	1.53(c)
Liggett & Myers	6.02	5.22
United Gas Improvement	.97	.72
Virginian Railway	4.48	3.90
Wheeling & Lake Erie	8.69	7.48
Caterpillar Tractor	4.16	4.13
Kimberly-Clark Corp.	4.81	3.77
Norfolk & Western	21.66	18.68(b)
Public Service of N. J.	2.42	2.04

(b)—12 mos. to Sept. 30. (c)—12 mos. to Oct. 31.

Balance sheet shows a decline in cash and Government bonds from total of $21,812,000 to $9,422,000; an increase of approximately $21,000,000 in inventory; and an item of $6,000,000 current notes payable not present at the end of 1940.

The American Tobacco Company at this writing has not yet issued income statement or balance sheet—but the latter will make interesting reading in view of current newspaper reports that the Company plans to raise from $80,000,000 to $100,000,000 of new capital funds—probably in the form of interest-bearing obligations—to handle increased volume and larger inventories. Between the end of 1932 and the end of 1940 the following interesting changes were shown on this company's balance sheet: Cash down approximately $31,000,000, notes payable $44,699,000 against no such obligation at the end of 1932, inventories up approximately $43,500,-

Showing Large Gains in 1941 Earnings

	1940	1941
Allied Mills	$1.68	$2.40
Black & Decker	2.82	3.78
Bliss & Laughlin	2.64	3.40
Atchison, Topeka & Santa Fe	1.49	8.05(a)
Atlantc Refining	2.11	5.10
A. M. Byers	.98	3.73
Central Violeta	..	1.62
Delaware & Hudson	.96	8.41
Devoe & Raynolds	1.16	7.08
Food Machinery	3.70	4.27(b)
Glidden	1.56	3.08(c)
Firestone	3.02	4.37(c)
General Tire & Rubber	.85	2.04(d)
Interlake Iron	.41	1.20
Lee Rubber	3.66	6.14(c)
Mullins Mfg.	.16	1.22
New York Central	1.75	4.09
Loew's, Inc.	4.82	6.15(e)
Sun Oil	3.03	6.21
Southern Railway	3.35	12.61
Rustless Iron & Steel	1.28	2.42
Manhattan Shirt	2.19	3.63(d)
Mueller Brass	3.64	6.66(d)
Swift & Co.	1.89	3.01(f)
Wilson & Co.	.84	2.55(f)
Savage Arms	1.53	5.11
N. Y. Chic. & St. Louis R. R.	4.00	30.89
Union Pacific	6.96	11.19
Wheeling Steel	6.62	11.71
U. S. Steel	8.84	10.43
Pennsylvania R. R.	2.69	3.45
Louisville & Nashville	6.68	14.47(a)
Remington Rand	.88	2.25(g)

(a)—11 mos. to Nov. 30; (b)—12 mos. to Sept. 30; (c)—12 mos. to Oct. 31; (d)—12 mos. to Nov. 30; (e)—12 mos. to Aug. 31; (f)—53 weeks to Nov. 1; (g)—9 mos. to Dec. 31.

000. With tobacco companies, foresight in inventory acccumulation can prove decidedly advantageous. Naturally, the management calculates the probable advantage of a large inventory against the cost of carrying it.

Mueller Brass Company illustrates how a relatively small total profit can become a big profit per share—if the capitalization is small. Company earned $1,768,775 in its recently closed fiscal year, which meant $6.66 per capital share, against only $3.64 the year before. There are but 265,516 shares of stock outstanding, with no funded debt or preferred stock. Although ratio of current assets to current liabilities declined from 3.4 to 2.1 during the year, cash increased by almost the amount of the gain in earnings.

This company's performance demonstrates something else that investors would do well to note. On a gain of about 120 per cent in sales volume, operating profit increased by almost 300 per cent, permitting a gain of better than 72 per cent in net profit—despite an increase of 990 per cent in reserve for Federal taxes.

The moral is that, even under the 1941 tax set-up, very large gains in volume were required to produce substantial earnings gains. That will be even more emphatically true in 1942, and the number of companies able to meet this requirement will be considerably smaller than in 1941. Taxes, of course, will be still higher. Many companies which had major volume gains last year are now at or near the limits of capacity, with no more operating slack to be taken up and leaving volume gains in most cases dependent upon expansion of plant facilities. Again, some companies which made good 1941 profits—especially in the consumers' durable goods industries—will be engaged this year in the much less profitable conversion to war work.

Assuming continuance of the present tax method—that is, with only higher rates—prospects for additional gain in earnings are best in such industries as aircraft, shipbuilding, rail equipment, railroads, machine tools and motion pictures. Outside of these lines, certain individual companies—for instance some of the motor accessory manufacturers and the sugar producers—have a chance to better 1941 results if the tax boost is not too steep.

Inventories Sharply Higher

Approximately 100 1941 reports are available at this writing. The great majority show some gain in earnings over 1940 and a large percentage show very wide gains. Nevertheless, the sample is still too small to be taken at face value. In most years the first 100 reports give a brighter average picture than remains after several times that many are available. For the majority of *industrial* enterprises, however, it is undeniable that 1941 was the best year since 1929 and for many it brought the largest profits on record.

Out of 37 balance sheets currently available—also too small a sample to be taken as providing more than a few straws in the wind—30 show increases in inventories, 7 declines. Approximately half show declines in cash, with the aggregate decline of these substantially exceeding the aggregate increase of the others. Seven show an increase in bank loans, while 10 show a decline, but again the total increase for the 7 greatly exceeds the total decrease for the 10.

In calculating dividend prospects these days, large earnings have to be taken with a big grain of salt—especially if they represent something unusual, abnormal or new in a company's experience. Take the case of Wilson & Co., meat packers. Earnings for the most recent fiscal year were $21.70 on the $6 preferred, against $11.16 in the previous year; and on the common amounted to $2.55, against 84 cents. The company paid $10.50 in dividends on the preferred during the year, leaving arrears of only $3. Why it didn't clear up the final $3 of arrears or pay anything on the common is obvious from one glance at the balance sheet.

To handle larger inventories, bank borrowings had to be increased more than $13,000,000 during the year. Despite application of the last-in-first-out principle to valuation of inventory, this item ended the year at $42,002,853, against $29,754,618 the year before.

Take the case of the rail equipments, now swamped both with war orders and large demands from the carriers. The percentage gains (*Please turn to page* 518)

Five Exceptional Opportunities in Rail Bonds

BY J. S. WILLIAMS

If for no other reason than their less vulnerable tax position, bonds might be expected to attract increased investor attention under present conditions, and especially those which still yield a high current return at a time of unprecedentedly low yields on the so-called money issues. In this category second grade rail issues are prominent both because of the attractive level at which many of these bonds are still available in the market and the increasing margin by which charges are being covered.

Even before the effects of the arms program were beginning to be felt, there were many signs that the long period of dwindling passenger and freight revenues might be ending and that financial and physical readjustments effected during the years of adversity would soon begin to show. Be that as it may, there is no doubt currently that the railroad position is the best in many years and maintenance of this improvement seems assured for at least the duration of war activity. After that a reappraisal will be necessary, but this also applies to practically any other security on the market and in the meantime the investor holding issues of the type here presented will have his money at work at a high return, with the added promise of worthwhile market improvement as well.

Last year the railroads moved around 46 million cars of freight, which was some 4 million more than in the preceding year and not far below the peak year 1929 when nearly 53 million cars were handled. That this was accomplished with 600,000 fewer cars is a remarkable commentary on the efficiency of the modern railroad, due in part to the greater speeds at which freight trains now operate as compared with a decade ago. It should be recognized also that carrying capacity has also been enlarged which enables the roads to handle a greater tonnage volume than formerly per car in operation. For that reason, a comparison of carloading figures with previous years does not give full weight to the volume of freight now being transported over the rails and allowing for this differential 1941 stands out as a record year even surpassing the prosperous year 1929. According to all indications, the current year will witness the attainment of new peaks in freight (*Please turn to page* 516)

Selected Rail Bonds for Income and Price Appreciation

Issue	Range 1941-42	Recent Price	Current Yield %
Balt. & Ohio, P. L. E. & W. Va. 4s, 1951	61½-43⅜	54	7.41
Balt. & Ohio 1st 4s, 1948	73⅞-56⅜	64½	6.20
*Gulf Mobile & Ohio Income 5s, 2015	59 -36	58¾	8.50
Pere Marquette 1st 4½s, 1980	74 -55½	62	7.26
Northern Pacific Ref. & Imp. 4½s, 2047	58¾-42½	53	8.49
Southern Pacific Ref. 4s, 1955	70⅞-56	68	5.88
†Central Pacific Gtd. 5s, 1960	58¾-42	57	8.77
Kansas City Southern Ref. & Imp. 5s, 1950	75½-64	71	7.04
Chicago Great Western 1st 4s, 1988	72 -60	66	6.06
New York Central Ref. & Imp. 5s, 2013	69¾-44¼	58¾	8.50
Southern Ry. Gen. 6s, 1956	87¼-74½	86½	6.94
Cleveland Union Terminal 1st 5s, 1973	79¼-60½	70¾	7.08
New York, Chi. & St. Louis Ref. 5½s, 1974	79¼-66½	79	6.96
Texas & Pacific Gen. Ref. 5s, 1979	75 -56	66½	7.50

*—Interest on contingent basis. Yield assumes full 5% rate on basis recent wide coverage. †—Guaranteed prin. and int. by So. Pac.

1942 Special

Security Re-Appraisals and Dividend Forecasts

PART 2

Industrial volume and profit trends, with outlook and ratings for individual Machinery and Tools —Electrical Business and Agricultural Equipments—Specialties—Unclassified Issues.

TOTAL war has already brought drastic changes in American business, with widely differing effects upon individual industries and companies. The months ahead will bring further sharp changes.

It therefore cannot be too strongly emphasized that periodic re-appraisal of security holdings is absolutely essential if the investor is to have any hope of safeguarding accumulated capital and of maintaining both adequate and dependable income return. It is to that practical purpose that our 1942 security re-appraisals and forecasts are shaped in this and the following two issues of THE MAGAZINE OF WALL STREET.

The essential information, ratings and opinions offered on individual securities are presented as concisely as possible for the convenience of subscribers. Please note that we claim no power of clairvoyance. We carefully weigh the known factors, the apparent trends and the reasoned probabilities—but no one can predict the unpredictable. The surprises of 1941 necessitated revision of many earlier investment opinions and calculations, no matter how rationally they had been made. Similarly, unforeseeable developments no doubt will require future revision of some of the opinions and ratings presented in these issues. But we make it our business continuously to watch for the unforeseeable event—as well as to project the foreseeable—and to interpret its effect upon individual industries and corporations. In that sense each bi-weekly issue of our magazine constitutes a "re-appraisal." We therefore say candidly that you will get the maximum usefulness out of the service offered on following pages—and in the next two issues—only by making use of our facilities continuously through the year.

In addition to our published material, you are invited and urged to use our personal inquiry department.

To meet new needs, several innovations are made in the material presented on individual securities. The average earnings of 1936-1939 and book value, presented in the first two columns of the tables, gives useful guidance as regards vulnerability to excess profits taxation, as explained in the footnotes. The higher the 1936-1939 earnings in relationship to current earnings—or the higher the book value in relationship to current market price—the more favorable is the tax position. In addition, we include a general tax rating as follows: a.—"Should be able to absorb higher taxes without undue difficulty." b.—"Not likely to be subject to heavy excess profits taxes." c.—"Higher taxes will probably reduce earnings." d.—"Higher taxes may imperil recent rate of dividend." e.—"Higher taxes may restrict dividend."

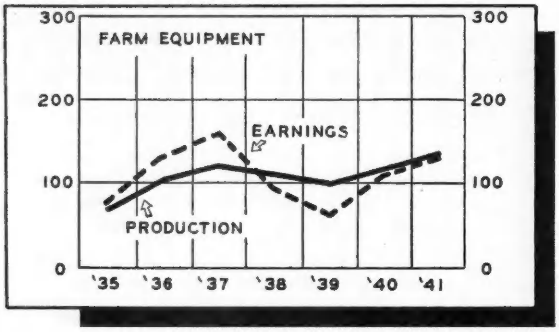
Note that the record of dividend paid in 1939 is a convenient remainder of normal distributions in a fair "peace" year. The key to our regular ratings of investment-market quality and earnings trends—last column in the table preceding comment—is as follows: A—High Grade investment quality; B—Good; C—Medium Grade; D—Marginal; E—Low Grade; while the accompanying numerals denote current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For instance, A1 denotes a high grade investment issue with an upward earnings trend and D3 a marginal issue with a downward earnings trend.

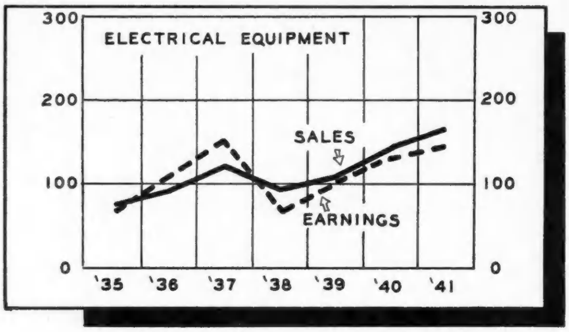
Selected issues which are recommended for safe income are denoted by a star symbol preceding the company's name; issues recommended for cyclical appreciation are marked with a dagger; and issues favored for both income and appreciation are marked with an asterisk. Timing of purchases for appreciation should accord with the general trend advice given in our regular market analysis in the forepart of each issue.

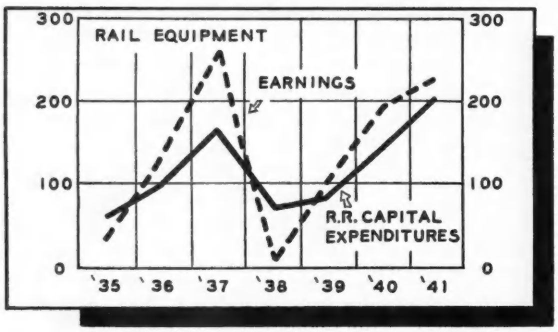
Presenting a Graphic Picture of Industrial Volume and Profit Trends as Defense Increasingly Takes Over Our Economy

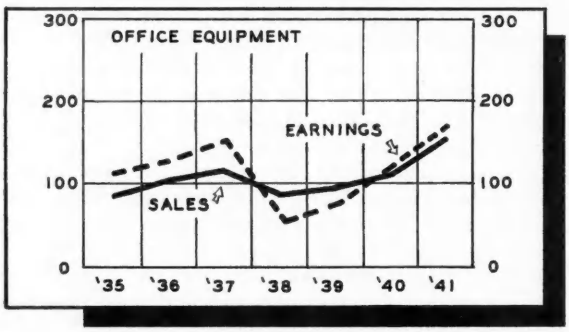
WAR ATLAS OF INDUSTRY

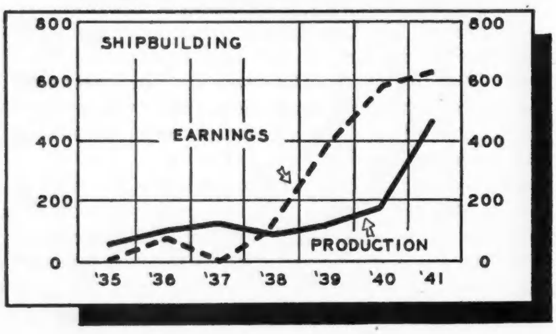
Indexes in these charts are based on 1935-39 as 100. The production indexes are taken from the Federal Reserve Board sub-indexes of industrial production. Other indexes are computed from representative groups of the industry. 1941 figures are estimates.

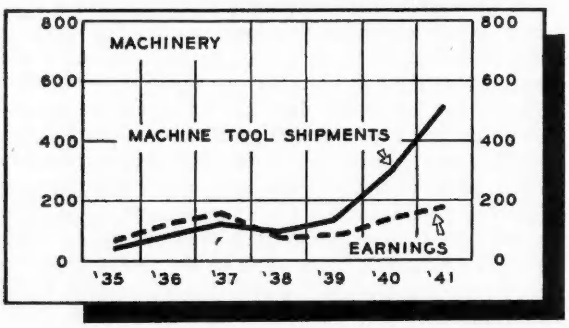












National Machine Tool Builders Assn. Photo

Record Volume Ahead for Machinery and Equipment

Higher Taxes Will Be Chief Obstacle to Higher Profits

MACHINE TOOLS are the basis of mass production. Airplanes, tanks, cannon, anti-aircraft guns, machine guns, battleships, submarines, armored trucks and other implements of mechanized warfare also are machines. But the machines of war cannot be made in quantity without machine tools; neither can refrigerators, washing machines, vacuum cleaners, automobiles and other machines of peace be produced in mass quantities without machine tools.

The demands of mechanized warfare and the enormous quantities of war implements required by the United States and its allies in prosecution of the war call for vast quantities of machine tools, without which the huge armament program would get virtually nowhere. Thousands of planes are scheduled to be built. A single airplane motor may contain as many as 8,000 parts, many of which must be machined to exquisite tolerances—if a plane is to fly successfully for even a relatively short number of hours. Thousands of tanks are being built, and a single tank may consist of as many as 15,000 individual parts. The Garand rifle, which will be required in the millions, is composed of 72 separate pieces of metal. Machine tools cut various types, sizes, and shapes of metals used in these and other armaments, accurately and expeditiously.

For years, the nation has been known throughout the world for its ability to turn out large numbers of durable consumers' goods, ranging from automobiles to baby carriages. In large measure, this ability to fabricate durable goods in mass quantities at prices within the reach of equally large numbers of consumers has been the basis of the growing standard of living for which the nation has been renowned. Superficially, it would seem as though machine tools therefore should have been available in numbers sufficient to turn out armaments. However, the plain fact is that machine tools in existence when hostilities began in 1939 were neither sufficient in number nor sufficiently accurate in many cases to be adapted to production of war goods. Moreover, a large number of peace-time operations had no similarity with operations involved on armaments, and special machine tools have been, and will be, designed and built to do special types of work.

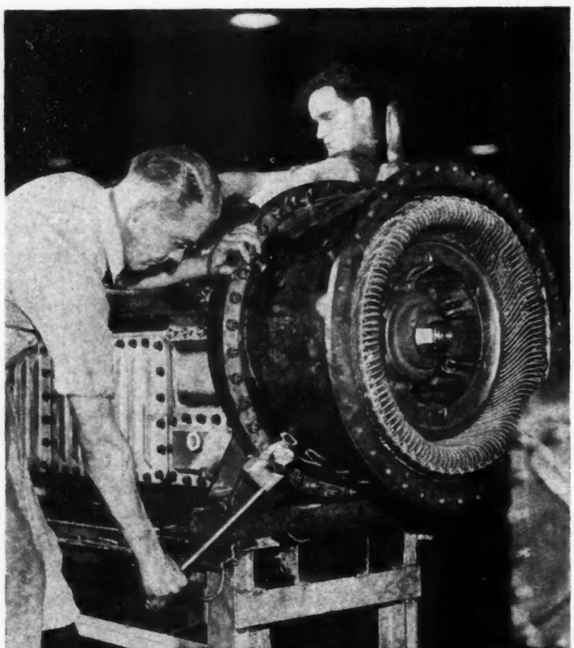
Oddly enough, the principles of mass production can be applied only to a limited extent in the construction of machine tools, although machine tools are the basis of mass production methods. Machine tools are mostly custom built, and require time to build. Unlike automobile factories, which tool up for a particular model, the machine tool builders must be able to turn out different types of machine tool models corresponding to the requirements of customers. The turret lathe—a specially designed turning machine used when metal is to be removed in production of hundreds of identical parts —may contain over 3,000 units. Some three months of day and night work are required to complete such a machine tool. Several types of special machine tools cannot be completed in less than nine months, a year, or longer. Re-equipping factories with machines capable of turning out armaments takes time.

In view of the difficulties mentioned, the nation can take pride in the accomplishments of the machine tool

industry. Machine tools with a value of $85.1 million were produced in December, 1941. The December figure represents a new monthly record, some 61.5 per cent over the value of output in December, 1940, and compares with November, 1941, production of $74.6 million and the previous record of $77.2 million for October, 1941.

The total value of machine tool production in 1941 is estimated by the National Machine Tool Builders Association at $775.3 million, an increase of about 72.2 per cent over 1940 output of some $450 million. Before the commencement of the armament program, the machine tool industry regarded production valued at $150 million as a very good annual total. Actually, production has gyrated to a greater extent than in other heavy goods industries. In 1932, for example, the total volume for the machine tool industry was only some $22 million. By 1939, the industry's volume had increased to around $200 million, largely as a result of orders placed by Britain and France for rearmament.

Employment in the machine tool industry has kept pace with the astonishing growth in output, amounting to some 110,000 individuals at the close of 1941, compared with 78,100 in December, 1940. According to the industry's Association, most of the men now employed never had seen the inside of a machine tool plant two years ago. One of the biggest problems with which the industry has had to cope has been the training of manpower, especially supervisors. Finding and training men to operate machines is considered relatively easy, but the bottleneck has been the dearth of supervisory personnel, technicians, and skilled machinists. Yet, the problem is being met successfully by training men in plants, schools, and by Government agencies.

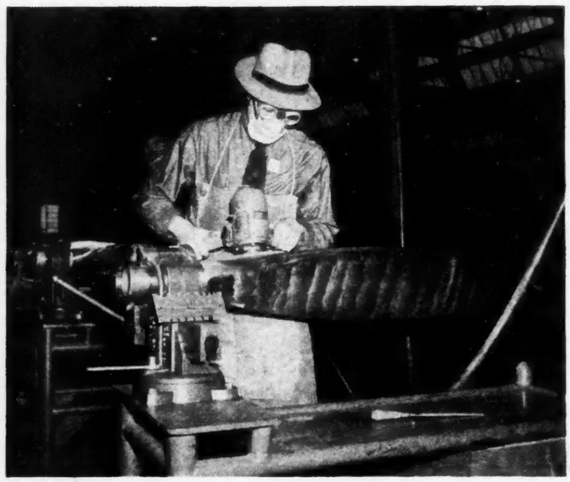


Westinghouse Photo

A motor for an air conditioning compressor being assembled with a special pressure wrench.

The machine tool industry has been asked to increase its 1942 output by 50 to 100 per cent over the extraordinary 1941 rate, which would mean shipments of around $1.2 billion to $1.5 billion, or more than twice the output for the entire decade of the 1930's. The valuation figures, of course, do not cover a corresponding increase in machine numbers, because of price advances and costly machine improvements which make present day machine tools considerably more efficient than those available a few years ago. However, the figures do point up some of the principal problems involved in such rapid expansion.

Other than the labor factor, the most important requirement of the machine tool industry is to know just what machine tools are wanted and in what quantities. Some machine tools can be built in relatively short periods of time, while others take longer periods to construct.



Curtiss-Wright Photo

A skilled operator is shown polishing to a high finish a Curtiss Electric Propeller blade.

Since unfilled orders are estimated to average around the equivalent of seven months' shipments, long range planning is difficult. Simplification of the number and types of machine tools would be a considerable step toward mass production methods, while output also could be speeded by cutting down the number of machines which are purchased with attachments or special devices which are not actually needed in production of specific items. Other avenues for increased output have been explored more or less completely in the last two years, and undoubtedly will be utilized. These include installation of additional new equipment; further plant expansion; greater use of second and third working shifts; and more subcontracting.

Virtually all machine tool builders are subcontracting parts, and a number are understood to be subcontracting entire machines. The method has its difficulties, particularly in the field of quality control, and raises costs. As more companies become familiar with doing work on a subcontracting basis, inspection problems

should diminish. Since a good many companies engaged in metal working of non-defense items will be compelled to reduce production, new recruits for subcontracting will be available to more than offset those that may be lured away by receipt of prime contracts for armaments.

Taxes Cloud Earnings Outlook

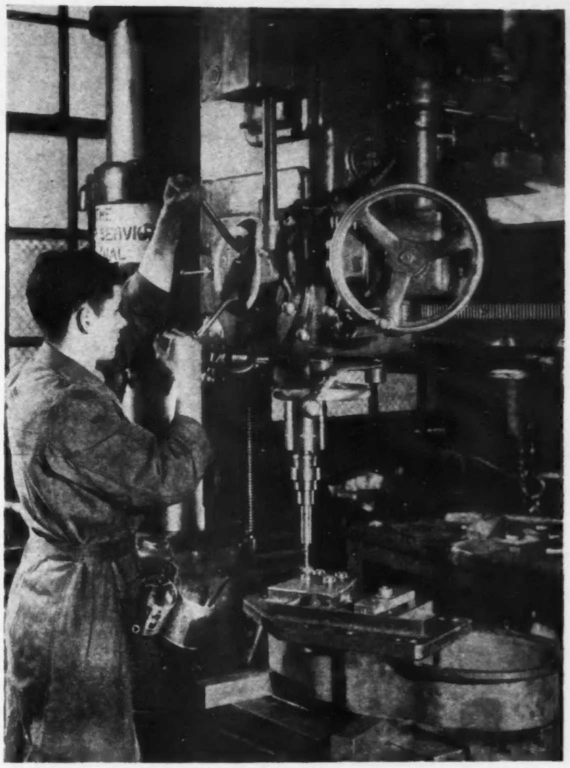
The machine tool industry has relatively small invested capital, while present profits are substantially higher than average earnings of 1936-1939. Consequently, the machine tool builders generally are in the highest excess profits tax bracket. Only moderate gains in net profits are indicated for 1941, and, while volume will be considerably higher this year and operating profits should rise, the extent of prospective tax increases will determine whether earnings available to stockholders will continue to advance. A number of machine tool

National Machine Tool Builders Assn. Photo

Machining flat cast iron parts on a planer—the cutter is stationary and the work moves.

companies increased dividend payments in 1941, and disbursements this year should be more liberal, barring unusual cash expenditures for plant expansion. The industry ranks high among war beneficiaries, and selected stocks available for public participation have speculative profit possibilities. Price times earnings ratios probably will remain modest, however, in view of the perplexing post-war conditions which are likely to be created by the war and the present prodigious expansion in output and facilities.

Makers of heavier types of machinery and equipment also increased their output in 1941 sufficiently to offset the restrictive effects of higher taxation. Several companies were able to increase dividend payments, or to resume disbursements after protracted periods of non-payments. Backlogs have been increasing, and active operations are assured for 1942. Makers of power generating equipment have all the business they can handle, and will step up shipments considerably this year. Heavy additional orders are in prospect as a result of the expanded naval and shipbuilding programs. Producers of Diesel engines also will be operating at virtual capacity



National Machine Tool Builders Assn. Photo

Drilling holes in a machine frame.

for an extended period to supply motive power for tanks, naval vessels, tractors, trucks, merchant ships, and Diesel railroad locomotives. Satisfactory profits are indicated for leading producers.

Prospects for leading producers of construction, earth-moving, conveying, and similar equipment are regarded as generally favorable, in view of the potential demand for construction of military bases, airports, armament plants, and other military facilities. Several companies also are doing ordnance and armament work, directly or indirectly, and such activities may become more important sales components. Sales of leading companies were sharply higher last year, and, with further gains indicated for 1942, continuation of satisfactory earnings is promised despite the higher taxes in prospect. Prospects in the mining and oil field equipment industries also are regarded as favorable.

The war is fostering tremendous demand for industrial electrical equipment, and incoming orders are heavy for generators and motors. Most production of power generating equipment is scheduled for the navy and merchant marine. Output this year may be as much as 50 per cent above 1941, little of which is expected to be available for other than military purposes. A similar situation obtains in other lines of equipment and apparatus. Producers of industrial types of electrical equipment consequently can look forward to expanding volumes for some time to come. Operating profits also are expected to advance, although profit margins will tend to narrow as a result of advancing costs for material and labor. Hence, earn- (*Please turn to page* 515)

Position of Leading Machinery and Electrical Equipment Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Allis Chalmers	$2.31	$34.94	a	$2.84	$3.50	$1.25	$1.50	B-1	While material shortages may curtail production of farm equipment during 1942, the heavy backlog of unfilled orders for tractors, steam and hydraulic turbines, electrical equipment and other regular lines, plus other defense orders for gun mounts, marine, and bomber equipment, points to further marked gains in shipments. Profit margins should be maintained fairly well, and, despite present uncertainty as to extent of further tax increases, indications are that net profits may improve moderately in reflection of new production peaks. Quarterly disbursements of 50 cents per share anticipated.
Amer. Mach. & Fdry.	1.06	15.87	a	1.33	1.40	0.80	0.94	C-2	War demands are sidetracking regular lines such as cigar, cigarette, and baking machinery, but substantial defense order backlog for manufactured parts for machine tools, aircraft engines, and other machinery and equipment, assures capacity operations for extended period. Taxes are likely to restrict earnings gains. Continuance of 20-cent quarterly dividend indicated.
Babcock & Wilcox	0.40	36.37	a	5.34	6.80	None	2.50	C-1	The large order backlog of this leading producer of boilers and equipment assures larger volumes, while profits margins should be maintained fairly well because of escalator provisions in contracts covering increases in material and labor costs. Earnings should hold up well despite further tax increases, but working capital requirements to finance heavier volumes will probably dictate continued conservatism in dividend policy.
*Black & Decker	Se1.98	18.15	a	2.82	3.78Ac	1.00	1.80	C-1	The vast scope of the projected war production program assures heavy demand for portable electrical tools, of which this company is a leading producer. Sales prospects are promising, but earnings gains will probably be restricted by tax increases, while heavier working capital requirements and tax reserves will no doubt necessitate conservative dividends.
E. W. Bliss	0.48	18.11	a	3.88	....	None	1.00	C-1	Sharp earnings improvement no doubt was experienced in 1941 as result heavy munitions and machinery demands. Since business almost entirely geared to war requirements, prospects are regarded as favorable from volume and profit standpoint. Heavier volumes will probably require conservation of cash, and dictate conservative dividends.
Bucyrus-Erie	0.81	10.94	a	1.71	1.75	0.50	1.00	C-1	Sales outlook for earth-moving machinery promising, while company also has substantial orders for gun carriages. Since output will be at favorable levels, and adequate profit margins are indicated, earnings promise to be maintained fairly well despite anticipated tax increases. Continuance of relatively liberal dividends expected.
*Bullard Co.	1.67	17.30	a	6.15	7.00	0.25	2.50	C-2	The manufacture of war equipment calls for all kinds of machine tools. Bullard's backlog is heavy, and successive new shipment records of its automatic machine tools and turret lathes are virtually assured as a result of plant expansion. Profit margins should hold up fairly well, despite advancing costs. Heavier volumes consequently promise maintenance of good earnings levels, even though the company is relatively vulnerable to tax increases. The need for conservation of cash to finance business expansion will probably dictate continuance conservative dividend policy.
Caterpiller Tractor	3.58	24.61	a	4.16	4.14Ac	2.00	2.00	B-1	Direct war orders for tank transmissions and drive assembles as well as indirect war orders for regular lines suggest continued volume gains, and, because profit margins should hold up fairly well as result price advances on some lines, continuance of satisfactory earnings levels is indicated. Retention $2 annual dividend rate expected.
*Chicago Pneu. Tool	1.39	4.89	a	3.01	6.00	None	1.50	C-1	Heavy backlogs particularly from shipbuilding and aircraft industries plus continued active demand in prospect point to record sales volumes for extended period. Economies of large scale operations promise maintenance satisfactory profit margins, and earnings outlook considered favorable. Dividends probably will be conservative because of heavier working capital demands.
Compo Shoe Machy.	1.79	8.84	a	1.34	2.00	1.00	1.00	C-1	Income from shoe machinery rentals and other sources should hold at favorable levels, while company also is engaged on ordnance work, which probably will expand. Earnings should be maintained fairly well, and permit continuance $1 annual dividend rate.
Crocker-Wheeler	def0.02	11.22	a	0.13	2.00	None	None	C-1	Most of Crocker-Wheeler's current business is connected with war orders, and volume gains are promising. Profit margins should reflect economies of larger output, and profits, which were sharply higher in 1941, should be maintained fairly well. Dividends will necessarily be postponed because of bank loans and profit and loss deficit.
Cutler Hammer	1.17	11.98	a	1.94	2.60	0.75	1.50	C-1	Continued expansion in operations is indicated by heavy backlogs and influx of new orders. Volume gains and operating economies promise maintenance satisfactory profit margins, and earnings and dividend outlook considered favorable.
Ex-Cell-O Corp	1.52	11.79	a	4.99	6.50	1.00	2.60	C-1	Production of machine tools, aircraft engine parts, and other items of war equipment will show further gains for extended period as result plant enlargements. Operating economies reflecting large scale operations should permit maintenance satisfactory profit margins, and further earnings improvement may develop despite taxes. Retention of 65-cent quarterly dividends considered probable.
*Fairbanks, Morse	3.06	40.02	a	4.59	5.00	1.50	2.50	C-1	Continued expansion in aggregate sales volumes is indicated as result heavy direct and indirect war orders, while profit margins probably will remain favorable. Profits should continue large, but dividend policy probably will be conservative as in past.
*Food Machinery	Se2.70	22.73	a	3.70	4.27Ac	1.375	1.75	B-1	Shipments of food machinery should increase additionally, while war orders for Navy amphibian tanks should benefit volumes. Earnings should remain at favorable levels, but no change from present conservative dividends is anticipated.

Position of Leading Machinery and Electrical Equipment Stocks—Continued

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	1941 (est.)	Dividends Paid 1939	1941	Investment Market Rating	COMMENT
Foster Wheeler	def0.51	18.40	a	3.43	5.00	None	None	C-2	Shipments of boilers, condensers, and other products required for the naval and merchant shipbuilding programs should show further gains as a result of plant additions, while heavier operations should permit maintenance of satisfactory profit margins. Further earnings is improvement is expected this year, which should expedite settlement of substantial preferred dividend arrearages.
General Electric	1.51	12.26	a	1.95	2.00	1.40	1.40	A-2	Operations of this leading electrical equipment manufacturer will be at virtual capacity levels for an extended period. Operating economies and some price advances should preserve adequate profit margins, and earnings prospects appear favorable. Continuance of liberal dividends expected.
Ingersoll-Rand	6.87	37.37	a	7.03	9.00	6.00	7.00	B-1	Ingersoll-Rand's strong trade position and widespread use of its products in ship construction and munitions manufacture assure continuance high level operations. Profit margins expected to be satisfactory, and profits should remain high. Liberal dividends indicated.
Link-Belt	2.75	26.62	a	3.37	3.90	1.50	2.00	C-1	Earnings this year should remain at high level in view of active demand for chains, conveyors, power transmission machinery, and other regular lines, on which profit margins should be sustained by operating economies. Also fabricating shells and ordnance items. Continuance 50-cent quarterly dividends expected.
Mesta Machine	3.64	13.46	a	3.08	3.50	1.50	2.25	C-1	Demand for steel mill machinery and large orders for military and naval ordnance coupled with additional plant facilities should permit further substantial increase in output. While profit margins may narrow, volume gains promise maintenance of recent earnings levels. Liberal dividends anticipated.
*Monarch Mach. Tool	2.71	11.64	a	5.63	7.70	1.50	4.00	C-1	The war program will stimulate further demand for machine tools, and operating prospects are considered very good. Volume gains plus operating economies promise retention satisfactory earnings levels. Continuance $1 quarterly dividends expected.
*National Acme	1.44	12.94	a	4.00	6.50	0.50	2.00	C-1	Heavy backlogs and incoming business plus plant construction underway promise further volume gains, and retention favorable operating margins. Profits should be maintained at high levels, but dividends probably will be conservative because of working capital requirements.
National Supply	1.31	11.75	a	def0.49	3.00	None	None	C-1	Earnings expected to continue favorable trend this year in view promising operating prospects, and indications of maintenance satisfactory profit margins. Continued payments against prior preferred dividend arrearages expected, but dividends on preferred and common not in immediate prospect.
*Niles-Bement-Pond	(Adj.)1.31	14.30	a	2.29	3.25	0.25	1.20	C-1	Earnings of this important manufacturer of machine tools, accessories, and precision instruments should be maintained at least by continued increases in shipments as result plant additions. Backlogs substantial. Conservative dividends probable.
*Savage Arms	(Adj.)0.41	8.10	a	1.53	5.25	0.31	3.31	C-1	Since the company is an important arms supplier, and plant expansion is underway, volume gains should develop for extended period, and more than offset tax vulnerability. Satisfactory earnings therefore expected, as well as continuance liberal dividends.
*Square D	2.62	8.68	a	4.56	7.20	1.75	3.00	C-1	Demand for industrial equipment and aviation instruments will accelerate output on completion plant expansion. Volume gains and maintenance at least of profit margins promise further earnings and dividend growth this year.
United Engr. & Fdry	3.64	13.43	a	4.47	4.75	2.50	3.00	C-1	War demands will foster further expansion in recent record rate of operations, and, since larger volumes should also sustain profit margins, satisfactory earnings and continued liberal dividend disbursements are in prospect.
U. S. Hoffman Mchy	0.42	20.70	a	1.29	3.00	None	None	C-1	Large government orders for laundry machinery as well as shell machining work suggest favorable operating trends, and, since profit margins should hold up satisfactorily, indications are that earnings also will be well maintained. Common dividends may be considered.
Walworth	0.14	3.55	a	0.80	1.00	None	0.25	C-1	Stepped-up output of munitions and marine valves should help maintain indicated 1941 profit rate despite taxes. Although working capital requirements are heavier, larger dividends are expected this year.
Wayne Pump	Nv4.29	18.31	a	3.18	2.90	1.50	2.00	C-2	While filling station demand will slump, war work will provide an important offset. Earnings probably will recede moderately for current fiscal year, but maintenance of 50-cent quarterly dividend appears likely.
Westinghouse E. & M.	5.44	73.67	a	7.10	6.50	3.50	5.00	A-2	A strong trade position, heavy backlogs of unfilled orders largely related to war demands, and plant expansion, promise further rise in output, and operating economies which should sustain profit margins. Earnings outlook favorable, and liberal dividends expected.
*Weston Elect. Inst	1.77	23.07	a	4.58	6.00	1.00	2.00	C-2	Heavy order backlog especially from aviation industry promises excellent sales outlook, and earnings should be sustained at high levels as result economies of large scale operations. Maintenance at least of $2 annual dividend indicated.
Worthington Pump	0.26	24.72	a	6.20	7.50	None	None	C-1	Backlog of unfilled orders is very heavy, mostly for war work. Profit margins should be sustained by volume prospects and escalator clauses to compensate for higher material and labor costs. High level of earnings indicated, and common dividends may be resumed this year.

*Recommended for cyclical appreciation.
(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the year 1936-1939. Indicated book value is an approximation of invested capital. a—Should be able to absorb higher taxes without undue difficulty. Nv—Year ends November. Se—September. Ac—Actual. (Adj)—Adjusted to four for one stock split. def—Deficit.

Rail Equipments in War Boom

Tax Position of Most Is Relatively Favorable

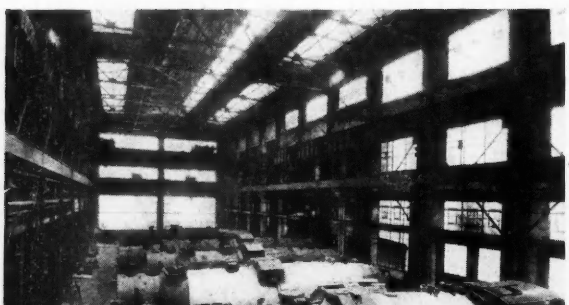
THE railroad equipment industry is primed with sufficient orders for essential transportation equipment and armaments to assure new production peaks this year. Because of the relatively heavy invested capital which characterizes the industry, the leading producers of railroad supplies and equipment will be less seriously handicapped by new taxes than industry in general. The picture, therefore, is one of excellent sales prospects, and an indicated growth in volume large enough to surmount the barriers to attainment of higher profits, including the obstacle of taxes. Aggregate 1941 profits for the industry are estimated to have increased about 25 per cent over 1940, and expectations are that further substantial gains will be achieved this year.

Railroad purchases of equipment from manufacturers totalled around $424 million for 1941, compared with about $251 million for 1940. The equipment makers are estimated to have had orders in excess of $250 million at the beginning of this year, with another $100 million or so likely to be placed to meet scheduled production of new freight cars and locomotives largely for delivery before next October 1. In addition, orders for war material are estimated to have ranged between $500 million and $750 million, or some two to three times the amount of railroad equipment orders estimated on hand on January 1.

While keeping a weather-eye focussed on potential traffic under the augmenting war production program, the railroad industry recently has lowered its estimate of 1942 equipment needs. The present schedule calls for the construction of 121,827 freight cars and 974 locomotives before the end of the year, including 29,046 freight cars to be built in railroad shops prior to October 1, and 30,000 cars to be built in railroad and contract shops for delivery between October 1 and the year-end.

For the first four months of the year, the schedule of freight car production calls for 45,000 cars, of which 9,000 would be built in January, and 12,000 in each of the succeeding three months. The proposed four month total indicates an accelerated rate of output nearly double that of early last year, and comparing with some 81,708 cars delivered in all of 1941. According to the latest report of the Association of American Railroads, there were 73,697 freight cars on order on January 1, including 23,036 from railroad shops.

Achievement of the schedule as outlined calls for an exceedingly high rate of output which may run into materials difficulties as the year progresses. While about one-third less than originally estimated, some 6,613,113 net tons of steel and iron will have to be delivered during the year to satisfy the requirements of the railroads for maintenance and the production schedules put up to car and locomotive builders. The materials for the program are being reserved, but prior- *(Please turn to page 515)*



Left—Lima Locomotive Photo. Top—Wide World Photo.

In the above photograph are a new heavy tank and an eight inch railway gun which are being turned out by the Baldwin Locomotive Works.

Position of Leading Railroad Equipment and Accessory Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Amer. Brake Shoe	$2.59	$35.75	a	$3.49	$3.60	$1.25	$2.20	B-1	Volumes will show further substantial gains this year in reflection of equipment purchases by railroads and direct and indirect war orders. Profit margins on increased business are expected to remain satisfactory, and, despite heavier taxes, earnings arel ikely to be sustained fairly well. A comfortable financial position promises continuance of a liberal dividend policy.
†Amer. Car & Fdry Ap	def3.49	73.69	a	def3.40	5.23Ac	None	1.00	C-1	American Car & Foundry has an exceptionally heavy backlog of unfilled orders, the bulk of which represents Government war orders. Tank production will accelerate rapidly in line with plant additions. Earnings for the fiscal year ending next April 30 are estimated at around $14 per common share on the basis of $6.34 reported for the first half, and prospects point to further earnings growth despite taxes. Common dividends are expected to be liberal once litigation connected with last year's declaration terminates.
Amer. Locomotive	def1.58	3.25	a	0.50	2.25	None	None	C-1	Larger volumes are in prospect. Unfilled order backlogs for tanks, other armaments, as well as steam locomotives, are substantial. While profit margins may narrow, the heavier aggregate volumes anticipated should sustain net earnings satisfactorily despite increased taxes. Common dividends are remote because of preferred dividend arrearages, against which further payments are likely in addition to regular rate.
Baldwin Locomotive	def0.89	39.45	a	1.75	3.75	None	None	C-1	Further marked earnings improvement is indicated for 1942 as output of armaments is stepped up. Locomotive business is likely to remain high for extended period, while war orders on a consolidated basis are heavy, and will probably increase. Because of heavier working capital demands, common dividends when resumed will probably be moderate.
*Gen'l Amer. Transp.	3.45	61.36	a	4.11	4.25	2.375	3.00	B-2	Further moderate earnings improvement is indicated as result demand for terminal and leased car facilities, and freight car construction. Company also doing some armament work. Dividends have been paid consistently for a number of years, and continuation of $3 annual rate appears assured.
Gen'l Railway Signal	0.31	12.44	a	1.21	2.00	None	1.00	C-1	Earnings outlook continues favorable as result of high order backlogs for railway signalling equipment, and armament work, which will be stepped up this year. Dividend payment consequently may be liberalized in keeping with earnings trend and adequate current finances.
Lima Locomotive	def0.12	44.63	a	0.41	4.00	None	1.00(4)	C-1	Earnings are expected to show further gains this year as production increases on locomotive orders and armament business, particularly tanks. Virtual capacity operations appear assured for protracted period. Larger cash dividends would seem warranted by earnings trend and comfortable financial condition.
†Nat'l Malleable Stl	1.54	31.44	a	3.05	3.70	1.00	1.75	C-2	While sharply reduced automobile business will affect operations temporarily, the company's steel and iron castings are in wide demand for military use, while continued heavy demand is indicated for railroad parts and castings. Earnings promise to be maintained fairly well despite higher taxes in prospect, and higher dividends would appear justified.
N. Y. Air Brake	2.20	31.86	a	4.04	5.00	1.00	3.00	C-1	The heavier railroad traffic volumes in prospect this year will sustain demand for the company's air brake units, while munitions business is expanding. The heavier sales volumes should help offset the higher taxes in prospect, and help maintain earnings at least as good as those indicated for 1941. Dividends may be increased in view of the favorable earnings trend and ample finances.
Poor & Co. "B"	0.45	8.65	a	1.12	1.50	None	None	C-1	While priorities may become more restrictive, present indications are that earnings will record further gains despite taxes, as the backlog of unfilled orders is considerable. Class "A" dividend arrears may be cleared this year and pave way for resumption of Class "B" dividends.
Pressed Steel Car	def0.92	6.30	a	2.35	1.00	None	None	D-2	Earnings this year are expected to show considerable improvement over the disappointing results indicated for 1941, inasmuch as tank production should reach high levels and the company also has substantial railroad orders on hand. Clearing of preferred arrears paves way for resumption of common dividends, but payments may be delayed pending bolstering of working capital.
†Pullman Co.	1.63	56.98	a	1.96	3.25	1.00	2.50	C-1	Earnings and dividend prospects are regarded as favorable because of the heavier volumes anticipated on tanks, airplane wing assemblies, and other armaments, as well as increased freight car building, and larger Pullman car revenues.
Superheater Co.	1.13	15.81	a	1.47	1.50	0.60	1.375	C-1	While the substantial backlog of unfilled orders and the rate of incoming orders from shipbuilding, railroad, and other industrial sources indicate a high rate of operations in prospect, narrowing profit margins and rising taxes may prove a barrier to earnings betterment. Continuance of a liberal dividend policy is likely.
Symington-Gould	0.47(3)	7.60	e	1.17	0.80	None	1.00	D-2	Net profits in 1941 approximated 1940 level, but were lower on a per share basis because of increase in stock sold under option warrants to bolster working capital. Volume prospects appear favorable in view of demand for freight car specialities and indicated expansion on armament work, including tank parts. Resumption of common dividends on semi-annual basis to be considered in March.
Union Tank Car	1.70	31.56	d	2.22	2.00	1.30	2.00	C-2	Record tank car movements to expedite shipments of petroleum, chemicals, and other liquids needed in prosecution of war effort virtually assure full use of company's tank car facilities for extended period. Taxes are a brake on earnings improvement, and, if increased more than now seems probable, may imperil recent rate of dividend.
Westinghouse Air Brake	1.25	15.19	a	1.76	2.00	0.625	1.75	B-1	Heavier production of armaments, including shells, fuses, and airplane, gun, and tank parts, plus expanded output freight cars, air brakes and signalling systems, promise to lift earnings this year despite tax burden and tax increases in prospect. The impressive financial position which has characterized the company's balance sheets suggests dividend disbursements at least equal to $1.75 paid in 1941.
Youngs. Steel Door	1.60	6.24	a	2.10	2.00	1.00	1.75	C-2	Taxes are likely to prove a barrier to earnings improvement despite the heavier production in prospect this year. Dividends probably will remain liberal because of indicated continuance of comfortable working capital position.

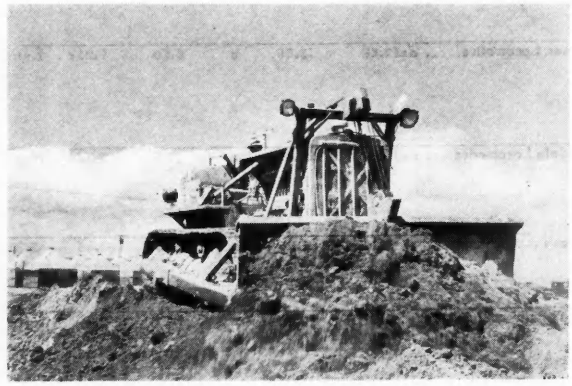
(3)—1937-1939 only. Ap—Year ends April. def—Deficit. a—Should be able to absorb higher taxes without undue difficulty. d—Higher taxes may imperil recent rate of dividend. e—Higher taxes may restrict dividend payments. Ac—Actual.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

Farm Equipment Profits Will Be Moderately Lower

LATE in December the farm equipment manufacturers were ordered to cut their over-all use of materials during the present fiscal year which began last November 1 to 83 per cent of the materials used for equipment manufacture in 1940. Actually, hundreds of specific farm implements were each assigned a percentage quota ranging from nothing on some items to 206½ per cent of 1940 on milking machines and 353 per cent of 1940 on hay press combines. Materials for wheeled-type tractors were fixed at percentages varying from 50 to 100 per cent of 1940, but the order did not apply to caterpillar-tread tractors, which are suitable for various military uses as well as farm work. Similarly, the materials going into spare parts were fixed at an average rate of 150 per cent of 1940, or an increase from 330,720 tons to 497,112 tons. Because of the percentage method of treatment, the scheduled consumption of critical materials such as copper, rubber, aluminum, steel and iron, will be reduced only moderately, from an aggregate of 1,868,055 tons for 1940 to 1,793,647, of which new machinery for domestic use is alloted 1,123,196 tons compared with 1,354,644 tons used in 1940.

The farm equipment makers consequently are faced with perplexing manufacturing problems since the order is retroactive to November 1 and many had been operating at higher rates. A minimum of dislocation also is desired in switching plants, production schedules, and workers to the increasing output of armaments. How the transition is handled will largely determine the results of operations for the current fiscal year.



Courtesy Caterpiller Tractor

While production of farm equipment may be curbed additionally by materials shortages, sales volumes of leading producers are likely (*Please turn to page 516*)

Position of Leading Agricultural Equipment Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
J. I. Case	Oc$8.34	$155.39	b	$3.45	....	None	$7.00	C-1	Earnings were sharply higher in the fiscal year ended last October, but, while profits will remain substantial, higher taxes and reduced farm equipment output will probably result in some decline during the current fiscal year. Ordnance work will help sustain aggregate sales volumes, but profit margins will probably be lower. Payment of a 1941 year-end dividend of $7 per common share indicates the probability of liberal disbursements.
Deere & Co.	Oc2.91	23.83	c	3.33	4.25	$0.75	2.00	C-2	While farm equipment sales will probably decline this year, aggregate sales volumes will remain excellent because of growing importance of tank transmission work, and the probability of other military business. Profit margins are likely to be narrower, and taxes will be restrictive, but earnings should hold up fairly well. Dividend payments are likely to remain conservative.
†Int'l Harvester	Oc4.20	66.26	a	4.11	5.50	1.60	3.00	B-2	Despite expected heavier taxes and curtailed production of farm equipment, earnings for the current fiscal year probably will remain good, because of substantial defense orders for items such as trucks, tractors, and ordnance items. Profit margins probably will be narrower, but aggregate sales gains should compensate. Higher dividends may be justified.
Minneapolis-Moline	Oc0.18	.....	a	0.75	1.50	None	None	D-2	Operations should be maintained fairly well by war orders despite expected curtailment farm equipment output, but taxes will be limiting factor on possible earnings improvement. Preferred dividend arrears, against which further payments should continue, prevent common dividends, and probably will require eventual recapitalization.
Oliver Farm Equip.	0.98	61.26	b	2.56	4.93(2)	None	1.00	C-1	Earnings promise to be well maintained, despite higher taxes, because of growing importance of ordnance business, and expectation that continued sales gains will compensate for indicated narrower profit margins. Bank loans are expected to dictate conservative dividend policy.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years of 1936-1939. Indicated book value is an approximation of invested capital.

Oc—Year ends October. (2)—10 mos. ended Oct. †—Recommended for potential appreciation. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings.

Mixed Earnings Outlook For Office Equipments

MANUFACTURERS of office equipment have been gearing their output to the unusual demands created by the war emergency. Both production and profits set new records in 1941, and prospects are that sales will hold at recent impressive levels this year. Production of portable typewriters and cash registers will be curtailed by materials shortages, and output of metal furniture has been curbed to conserve steel. The over-all picture points at least to maintenance of aggregate sales in coming months, since the principal lines are not considered likely to be affected seriously by materials difficulties and the amount of armament work, while not large in relation to recent sales totals, is of growing importance.

The demand for standard products—heaviest in typewriters—has mirrored the expansion in industrial production and the rapid growth in Governmental departments and bureaus. Production was accelerated last year, but still the orders came piling in. The industry consequently has a high backlog of unfilled orders and is relatively low on inventories. Output is subject to priorities, and Government or direct defense orders have first claim on production. Materials also are supplied in accordance with the priority ratings of customers.

Volume thus far has served to offset higher production costs and taxes, but earnings this year may compare slightly less favorable in view of the prospective tax increases. Most companies nevertheless will report earnings considerably better than those of other recent years, while dividends are generally conservative and allow an ample cushion of coverage. Over the longer term, the industry is not without its uncertainties, and adjustment to peace-time conditions in particular will tax the ingenuity of management. New developments meanwhile are being sidetracked.

Position of Leading Business Equipment Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Addr.-Multigraph	Jy$1.72	$12.01	a	$0.78	$2.00Ac	$1.05	$1.00	C-2	Replacement accessory demand, and sales of addressing and duplicating machines to Government and war industries, plus some armament business, should hold volumes at favorable levels, and mitigate loss of foreign business. Higher taxes will probably restrict earnings to around 1940-1941 level, but maintenance $1 annual dividend appears assured.
Burroughs Add'g	1.00	6.16	a	0.63	0.90	0.40	0.70	C-2	Active demand for office machines from Government and from armament industries should continue, and help offset indicated restricted foreign business and tax increases. Dividends probably will remain liberal.
Int'l Business Mch	9.76	59.62	a	10.50	10.50	6.00(2)	6.00(2)	A-2	Revenues, which are largely from rentals, should continue to respond to large demand for tabulating equipment, introduction of new products, plant expansion, and ordnance manufacture. While tax increases would be relatively burdensome, further moderate earnings improvement is possible. Continuance of regular $6 annual dividend plus stock dividends anticipated.
National Cash Register	1.69	22.87	b	1.26	2.10	1.00	1.25	C-1	Sale of cash registers will recede, but armament work probably will provide volume offset. Foreign sales are expected to hold around recent reduced levels. Taxes will no doubt be restrictive, but continuance of recent rate of dividends seems probable.
Pitney-Bowes	Mr0.67	3.31	e	0.66	0.62Ac	0.50	0.50	C-2	Earnings for the fiscal year ending next March are expected to approximate 60-cents per share. Revenues are mostly from lease rentals. Demand for postage meters is reported active in reflection of industrial activity, and company also has substantial armament orders. Taxes will be a limiting factor on possible profits expansion, but generous dividends are anticipated.
Remington-Rand	Mr1.47	2.34	a	0.94	2.17Ac	0.80	0.80	C-1	Earnings for the fiscal year ending next March are expected to be around $2.50 per share. Demand from Government and war industries, as well as armament orders, should improve sales volumes, but taxes will restrict earnings betterment. Higher dividend payments are justified by recent earnings trends and operating prospects.
Royal Typewriter	Jy6.11	31.50	c	7.91	9.19Ac	3.00	5.50	B-1	A moderate decline in earnings is indicated for the current fiscal year ending next July, inasmuch as taxes are likely to exceed possible gains in operating income. Continuance of fairly liberal dividend disbursements is expected.
Smith & Corona	Je2.42	19.54	a	0.90	3.46Ac	0.50	2.00	C-2	Earnings for the fiscal year ending June are expected to compare favorably with 1940-1941 results on indications of sustained demand from Government agencies and war industries. Company also is manufacturing armament products. Dividends of at least $2 per share are expected to be maintained.
Telautograph	0.52	3.54	b	0.44	0.50	0.30	0.10	C-2	Revenues from lease rentals of facsimile transmission equipment should be maintained satisfactorily, but taxes will restrict earnings improvement. Conservative dividends are indicated because of relatively limited working capital.
Underwood-Ell.-Fisher	4.17	31.95	c	3.03	5.00	2.00	3.50	B-1	Demand from Government and war industry sources, as well as armament production, promises to sustain sales volume during coming months, but taxes will restrict full reflection of operating gains. Continuance of fairly liberal dividends expected.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profit taxes. c—Higher taxes probably will reduce earnings. e—Higher taxes may restrict dividend payments. Jy—Year ends July. Je—Year ends June. Mr—March. (2)—Plus stock.

Position of Miscellaneous Companies

Company	Federal Tax Basis (*) Average Net 1936-1939	Federal Tax Basis (*) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
†Abbott Laboratories	$2.41	$18.01	a	$2.89	$3.00	$2.05	$2.15	B-2	New products promise further expansion in sales in '42. Earnings should hold at level to maintain recent rate of dividends.
American Can	5.61	50.20	c	5.88	6.50	4.00	4.00	B-3	Tinplate restrictions, higher costs and substantial excess profits tax liability will cut current earnings, but $4 dividend probably secure.
Amer. Chain & Cable	1.13	14.12	a	2.75	3.50	1.00	2.00	B-2	Has substantial direct and indirect stake in war effort. Current dividends should be on a par with 1941, at least, with extras possible.
American Chicle	7.87	24.91	c	8.42	8.00	6.25	6.00	B-3	Sales last year set a new high record. Lower earnings due to substantially larger provision for taxes. Further tax increases may restrict extras this year to $1.
Amer. Hawaiian S. S.	1.08	29.20	a	7.87	6.25	1.50	5.00	B-1	Large portion of company's fleet chartered in foreign service. Earnings outlook promising for duration of war. Not affected by situation in Far East. Continued liberal dividends probable.
Am. Hide & Leather	Je0.12def	4.32	b	0.74	0.53Ac	None	None	D-1	Sustained high level of shoe production augurs well for further earnings gains this year. Inventory profits have contributed to recent earnings. Dividends unlikely.
Amer. Home Prods	4.17	14.72	a	5.32	5.50	2.65	2.80	B-2	Prospects are favorable for well sustained earnings in the months ahead, accompanied by liberal dividends, but company would be vulnerable to excess profits tax based solely on capitalization.
American Ice Co	def1.36	8.31	b	def2.37	def	None	None	D-1	Sales probably will continue to gain, but dividends to common stockholders appear quite remote.
Amer. Safety Razor	2.05	12.56	c	0.73	0.70	0.20	0.50	D-3	Priorities and competitive conditions may have a restricting effect upon earnings. Dividend outlook speculative.
Amer. Type Fdrs	Mr0.30	14.30	a	0.16	0.53Ac	None	None	D-1	Company has accepted defense orders in fairly substantial volume and normal activities being converted to war production. Earnings gains foreshadowed. Dividends not imminent.
Atlas Tack	0.71	18.11	a	1.41	1.75	None	0.30	D-1	A fairly substantial portion of the company's products are going both directly and indirectly into defense work. Production being enlarged and moderately higher dividends possible.
†Bath Iron Works	0.63	15.63	a	4.90	4.00	None	1.25	B-2	Unfilled orders large and prospects are clearly favorable for well sustained earnings, at least for duration of war. Taxes restrict earnings gains but current dividends may be somewhat more liberal.
Bigelow-Sanford	1.83	67.37	a	6.11	6.35	1.00	4.00	C-2	Question of obtaining adequate wool supplies this year introduces an element of uncertainty. Substitutes may cushion possible effects of wool shortage. No increase in dividends indicated.
Bristol-Myers	3.31	12.31	a	3.73	4.25	2.40	2.55	B-2	Rising purchasing power will afford further sales impetus. Dividends appear well safeguarded by earnings. Company would be vulnerable to excess profits tax based solely on capitalization.
Brown Shoe	Oc2.39	50.30	a	2.02	4.11Ac	2.00	2.00	B-1	Peak production likely to be sustained. With Government orders bulking large. Dividends likely to continue conservative.
Canada Dry	Se1.14	2.66	c	1.63	2.66Ac	0.50	1.00	D-3	Recent earnings have shown encouraging progress. Sugar rationing, however, introduces a factor of uncertainty into current prospect. No increase in dividends indicated.
Carrier Corp	def0.23	8.47	a	1.35	1.50	None	None	D-1	Earnings last year slightly higher than previous period and large unfilled orders presage further moderate gains this year. Priorities may cut non-defense business. Dividends doubtful.
Champion Pa. & Fibre	Ap1.41	31.02	a	2.25	3.36Ac	0.10	1.00	B-2	Reduced advertising appropriations may result in decline in demand for magazine papers, but demand for book and other papers should be an offset. Earnings should hold and dividends at the recent rate likely to be continued.
Chicago Flex. Shaft	7.63	28.95	a	8.33	9.00	5.75	6.00	B-1	Company well protected on inventories for the immediate future but later supplies are in doubt. Facilities may be diverted to defense and permit maintenance of generous dividend policy.
Coca-Cola	5.79	7.59	c	6.77	7.00	5.00	5.00	B-3	Has been compelled to ration deliveries in the interest of sugar conservation, although inventories are fairly sizable. Situation may prove temporary, but taxes will restrict earnings gains. No immediate change in present dividend indicated.
Colgate-Palm.-Peet	1.36	19.95	a	1.72	2.50	1.25	1.50	B-2	Although present inventories are understood to be sizable, company may later experience difficulty in obtaining adequate raw materials of oils and fats. Dividends secure for present.
†Colt's Pat. Fire Arms	5.62	57.69	a	9.53	12.00	4.50	8.50	B-1	Typical "war baby" with large portion of present output going to the armed forces. Earnings gains have been marked, and while they may be less so under the impact of higher taxes, prospects favor continued good earnings and dividends.
Commercial Credit	5.45	29.27	c	4.23	4.50	4.00	3.00	B-3	Earnings for next six months will reflect large volume of receivables booked in 1941, but restrictions will take a heavy toll of later profits. Dividends may be lowered.
Commercial Invest. Tst.	4.93	30.37	c	4.35	4.80	4.00	4.00	B-3	Efforts to meet restrictions on installment financing do not promise to offset the heavy loss of automobile, refrigerator and other similar business. Dividends speculative.
Container Corp.	1.53	25.53	c	2.85	3.00	0.25	1.50	B-2	Sales gained 45% last year but profits lagged owing to company's heavy liability for excess profits taxes. Dividends likely to continue conservative.
Continental Can	2.78	34.06	c	2.82	2.55	2.00	2.00	B-3	Current earnings will depend on company's ability to expand sales of food cans sufficiently to offset losses in general line division. No early change in dividends indicated.
Crown Cork & Seal	2.50	28.99	c	3.90	4.50	None	1.00	C-3	It is to be doubted that recent earnings gains will be materially extended over coming months, and dividends are likely to be held at a conservative rate.
Crown Zellerbach	Ap1.09	11.43	a	2.42	2.75Ac	0.50	1.00	C-2	Capacity operations in newsprint division likely to be maintained for some months. Kraft divisions expanding. Present dividend secure but no early increase looked for.
Diamond Match	1.61	25.39	c	1.51	1.50	1.50	1.50	B-2	Earnings likely to hold to a fairly even keel, but taxes preclude any possibility of an increase in the present $1.50 divdend.
†Doehler Die Casting	2.32	19.90	c	3.68	4.50	None	1.00	C-3	Sharp falling off in automobile business will be offset to a large extent by gains in defense orders. Dividends likely to be modest in relation to earnings in order to build up working capital.
†Dresser Mfg. Co.	(2)1.36	18.18	a	3.57	3.00	None	1.50	C-2	Deliveries against large unfilled orders this year should reflect favorably in earnings. Has recently arranged a bank loan to take care of inventories and dividend needs.
†Eastman Kodak	8.49	73.11	c	7.96	8.25	6.00	6.00	B-2	Earnings should continue to provide a fair measure of support for dividends, although taxes will have a restricting effect on current profits. Shares have investment merit.
Electric Boat	0.82	13.25	a	2.89	3.00	0.60	0.90	C-2	Large backlog of unfilled orders promises extension of recent earnings trend and dividends this year may be moderately higher.

Position of Miscellaneous Companies—Continued

Company	Federal Tax Basis (*) Average Net 1936-1939	Federal Tax Basis (*) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Endicott Johnson	Nv2.76	75.95	a	3.20	My4.88Ac	3.00	3.00	B-2	Continued heavy output for both civilian and military demand should produce earnings comparable with results shown in latest fiscal period. Dividends secure.
†Fruehauf Trailer	2.27	17.83	a	3.36	5.50	1.00	1.40	B-2	Sales last year were the largest in the company's history and backlog at beginning of year was in excess of $10 million, about half for Government. Bank loans may dictate conservative dividend policy.
Gaylord Container	1.71	13.58	c	2.04	2.25	0.70	1.00	C-3	Taxes will probably restrict current earnings and dividends may continue conservative pending reduction of bank loans.
Glidden Co.	Oc1.83	24.05	a	1.56	3.08Ac	0.50	1.50	B-2	Sales have recently recorded substantial gains and while adequate supplies of raw materials may prove a problem, the outlook is for continued good earnings on a level comparing favorably with last year. Dividends of at least $2 appear a reasonable expectation.
Gotham Silk Hosiery	0.25	4.02	b	def0.81	def	None	None	D-2	The company has made preparations to manufacture nylon, rayon and lisle hosiery and earnings will probably hold at recent levels. Common dividends not imminent.
★Hazel-Atlas Glass	6.21	51.57	a	5.98	7.50	5.00	5.00	B-2	The company would benefit from diversion of food and other products from tin to glass containers. Output should be sustained at relatively high levels and earnings should provide reasonable support for the present $5 dividend.
Household Finance	6.92	43.55	c	7.11	6.00	5.00	5.00	B-3	More stringent credit regulations may cut current volume. The company may act conservatively in payment of extra dividend.
†Industrial Rayon	1.05	27.78	a	3.15	3.25	0.75	2.50	B-2	Operations likely to be sustained at capacity, with earnings holding at levels sufficient to accord support to the dividends.
Interchemical Corp.	2.22	(2)23.53	a	2.47	4.00	0.40	2.00	C-2	Shortages of raw materials may create a difficult problem. Earnings, however, should hold above the present $2 dividend.
Int'l Mercantile Marine	def1.84	....	a	def0.54	0.25	None	None	D-1	Well sustained operations and lower debt charges augur favorably for current earnings. Dividends, however, are not anticipated.
†International Paper	0.10	27.19	c	6.07	6.00	None	None	D-2	Capacity operations appear assured throughout 1942. Elimination of arrears on the preferred shares last year paves way for inauguration of common dividends, prospects for which are hopeful.
Lambert Co.	1.66	7.90	c	1.57	2.00	1.50	1.50	C-2	Current earnings may be restricted by higher taxes, although sales should expand further. The company would be vulnerable to taxation based solely on capitalization.
†Lehman Corp.	Je1.04	29.78	a	1.02	1.25Ac	0.80	1.20	B-2	Asset value of shares amounted to $26.74 per share at the end of last year. Dividends of at least $1 a share is reasonably assured.
Lehn & Fink Prods.	Je1.41	8.55	a	0.76	1.93Ac	1.37	1.60	C-2	Current earnings should reflect increased consumer purchasing power and no change in the recent rate of dividend is indicated. The company, however, would be vulnerable to taxation based solely on capitalization.
McGraw-Hill Pub.	1.30	4.36	c	1.52	1.75	0.30	0.75	C-3	Possible decline in advertising revenues, coupled with higher taxes and other costs, seem to preclude the possibility of any material increase in current profits. No early change in dividends likely.
Mohawk Carpet Mills	1.29	30.85	c	2.91	3.50	0.75	2.00	C-3	Impending shortages of wool and jute may have an adverse effect upon current operations, pending development of suitable substitutes. Dividends reasonably secure for the time being.
Novadel Agene	3.13	6.96	c	2.94	3.00	3.00	2.00	C-3	Imposition of priorities may have a restricting effect upon sales of company's Kooler-Keg division. Stability in other divisions, however, should permit maintenance of fairly generous dividends.
Omnibus Corp.	1.41	9.97	c	1.36	.40	1.20	0.30	D-1	Tire rationing will create a perplexing problem. Early resumption of dividends unlikely.
★Owens-Illinois Glass	4.07	26.31	a	2.70	3.50	2.00	2.50	B-2	Tin shortage may divert numerous products to glass containers and the company's sales this year may expand sufficiently to substantially absorb higher taxes. Dividends of $2 a share is assured.
Powdrell & Alexander	0.29	9.90	c	0.43	1.00	0.50	0.40	C-3	In response to increased consumer purchasing power, sales this year promise to be well sustained. Net, however, may be reduced moderately by increased taxation, but present dividend appears secure.
Pratt & Lambert	2.10	31.24	c	2.29	2.50	1.75	2.00	C-3	Some decline in earnings forecast for 1942. Dividend may be issued.
Procter & Gamble	Je3.18	20.37	c	4.37	4.21Ac	2.25	3.00	B-3	Pending shortages of essential oils and fats, together with some increase in operating costs and higher taxes presage lower earnings this year. Regular $2 dividend is secure but extras may be smaller.
Radio Corp.	0.32	....	a	0.42	0.45	None	0.20	C-2	Substantial volume of defense business may permit company to take up the slack in the manufacture of civilian products and decline in broadcasting revenues. No early change in dividend policy.
Simmons Co.	2.48	17.02	a	2.33	2.50	1.75	2.00	C-2	Prospects favor earnings more or less on a par with recent levels. The company is understood to be well protected on inventories, but higher taxes will prevent any material increase in profits.
★Sterling Products	5.14	16.62	a	5.30	5.50	3.80	3.8	B-2	Well sustained domestic sales may be augmented to an important extent by growing South American division. Dividends should continue liberal, but company would be vulnerable to taxes based solely on capitalization.
Sutherland Paper	2.48	19.77	c	2.84	2.75	1.30	1.25	B-3	Lower earnings in the face of substantially increased sales and satisfactory profit margins, will reflect higher corporate and excess profits taxes. Present dividend of $1.20 appears reasonably safe.
Tex. Pac. Coal & Oil	1.00	12.81	a	0.54	1.20	0.40	0.50	C-2	A well sustained demand, with higher prices for both crude and refined products suggests probable continuation of recent favorable earnings trend. Moderate increase in present dividend possible.
Truax Traer Coal	Ap0.64	15.24	a	0.53	0.92Ac	None	0.625	C-1	The company earned 97 cents a share in the six months to October 31, last. Continued heavy industrial demand for soft coal augurs favorably for current results. Further dividends probable.
Union Bag & Paper	0.75	11.94	c	1.68	1.70	None	1.00	C-2	Improved prices and continued heavy demand for company's products, indicated for coming months. Higher taxes, however, will restrict gains in net. No change in dividends indicated.
United Drug	0.91	7.28	a	0.82	1.75	None	None	C-2	Marked increase in profits last year reflect substantially expanded sales. Current outlook good but desire to strengthen cash position may postpone dividend payments.
★United Fruit	4.34	56.92	a	5.10	6.00	4.00	4.00	A-2	About half of the company's fleet is engaged in activities directly connected with the war and the balance is currently transporting large tonnages both to and from Latin American ports. Dividends secure and shares have investment merit.
Wrigley (Wm., Jr.)	4.25	28.88	c	4.19	4.00	4.25	4.00	B-2	Current earnings should be sustained at fairly satisfactory levels and present inventories are reported to be sizable. Outlook is confused somewhat, however, by restricted sugar supplies. Dividends likely to continue liberal.

(*)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital. def—Deficit.

★—Recommended for safe income. †—Recommended for cyclical appreciation. (2)—Formed in 1938. Ap—Year ends April. Je—June. Jy—July. Mr.—March. Oc—October. Nv—November. Se—September. Ac—Actual. See Page 495 for tax rating symbols.

What Next For The Rubbers?

Worst Prospect Probably Discounted and Supply Problem Can Be Solved Within Two Years.

BY FRANK R. WALTERS

The Government's swift action in cutting civilian rubber consumption by 80 per cent in order to assure adequate supplies of crude for military purposes met with universal approval. Everyone grants the paramount necessity of winning the war. Yet once he admits this, the investor has a legitimate right to ask how his interests have been affected. Common stocks of rubber manufacturing companies declined 25 per cent overnight when the Japanese attacked Pearl Harbor. Was this too much? Or is worse to come?

The answer to these questions can be found in the Government's stockpile, the extent to which it will be depleted by military needs and the speed with which it can be replaced. How much rubber is there on hand? How much will be required by the military forces before new sources can be relied on to replace the Malayan and East Indian crude on which we have been almost wholly dependent? How soon can these sources be developed? At what rate can the industry be permitted to operate in the interim?

The exact extent of the Government's stockpile is an official secret. As nearly as can be determined, it amounted to some 750,000 tons of crude rubber at the year end, of which about 600,000 tons was on hand and the rest afloat. Estimates of how long these supplies will last vary from one to two and one-half years. The military authorities, of course, are not disclosing their intentions, but, although they are quite logically proceeding on the assumption that shipments of crude from Malaya cannot be resumed for several years, there is good reason for thinking that the two and one-half year estimate is too generous.

Some indication of the extent of military demands may be obtained from Mr. Roosevelt's budgets for the various armed services. President O'Neill of General Tire & Rubber has estimated that 175,000 tons of crude will be used for tanks, planes and ships in 1942 and 220,000 tons in 1943. These figures are exclusive of the amounts to be used in the manufacture of trucks, scout

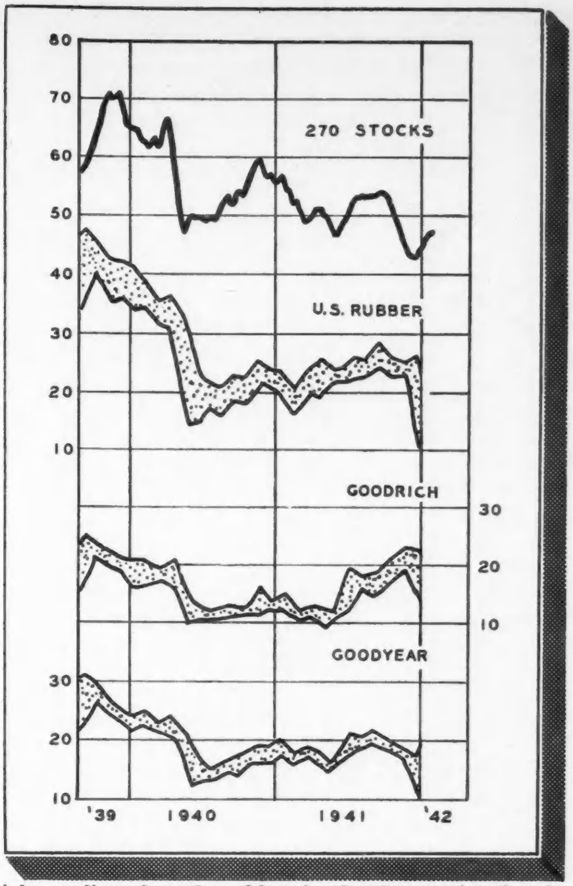
Wide World Photo
Retreading will become familiar to all car owners.

cars, gas masks, gasoline tanks, balloons and a host of other necessary items and do not include 120,000 tons a year for limited civilian production. If allowance is made for the additional items, it seems probable that 1942 consumption will be somewhat in excess of the 437,000 tons of 1938 and that slightly less than the 648,500 tons of 1940 will be consumed in 1943. This indicates that the Government's stockpile must be augmented if

it is to be sufficient for eventual war requirements. The critical nature of the situation is emphasized when we reflect that in all similar past situations we have "set our sights too low." It is not a promising background for the security holder unless the problem of supply can be solved.

An unbiased appraisal of supply possibilities leads to the conclusion that present stocks of crude rubber are adequate to bridge the gap between now and the time when new and generous sources of material are available, if we are willing to pay the price. This is exclusive of the possible resumption of Malayan shipments. Even if the Japs were ousted from the areas they now control, Malay crude would not be available for some time to come. Although the British, contrary to the usual assumption, appear to have confined their "scorched earth" policy to the destruction of equipment rather than trees, considerable repairs would be necessary before shipments could be undertaken.

The principal products prominently mentioned so far as promising to alleviate the potential crude shortage are synthetics, reclaimed, and guayule rubbers. Additional suggestions include the claim that some 500,000 tons of crude could be obtained annually from wild plants growing in the American deserts.



Other Sources of Supply

Some of these do not hold much promise. Reclaimed rubber might add 70,000 to 80,000 tons to stockpiles over estimated 1941 production of 270,000 tons, but output is now believed to be running on a 320,000-ton basis and may shortly start to decline. Scrap supplies, which come largely from old tires and tubes, may soon dwindle, due to the rationing of tire stocks and restrictions on the manufacture of new tires. Likewise, scrap cannot be worked successfully more than two or three times. Guayule cannot be looked to for a solution of the problem in the near future. Congress recently authorized a large scale planting program, but harvesting within the year is regarded as inadvisable and production can hardly become significant before 1944.

Of the products which have received the most attention, synthetic rubber appears to have the greatest possibilities. Certain types of synthetics have grease resisting, insulating and other characteristics which make them superior to natural rubber for some purposes, although none has proved equal to the natural product in versatility. Synthetic production in 1941 probably approximated 15,000 tons. Plants already constructed or to be completed in 1942 should permit a step-up to 75,000 or 80,000 tons this year. Plans for a Government-sponsored program have been announced, under which capacity will be increased to 400,000 tons by the middle of 1943 at a cost of $400,000,000. The new plants are expected to be able to sell the synthetic product for approximately 30 cents a pound. The program is certain to encounter difficulties in getting materials and equipment and to present unexpected operating problems, but it should go a long way towards making up the deficiency in supplies. It has, however, been criticized as inadequate.

One further source of crude rubber has been suggested as a solution to the entire problem. Certain authorities, including Harvey S. Firestone, Jr., claim that the potential supplies of crude rubber in the Amazonian jungles are sufficient to meet all conceivable demands. Estimates place the number of wild rubber trees in the Amazon Valley at 300,000,000, or a major source of supply if all could be tapped. Heretofore the chief obstacle has been the cost. It is estimated, however, that a price of 35 cents a pound for crude rubber would be sufficient to entice the natives to go to work. The higher price would be compensated for by the speed with which production could get under way and the saving in shipping time and cargo space. The Government seems to be alive to the possibilities. Groups of business advisors and technologists have already been formed to stimulate the location and tapping of wild trees. Between this source and the synthetic program, the shortage of rubber should be overcome in time.

With the reasonable assurance that the Government's stockpile can be replaced, there seems to be considerable justification for the conclusion that the outlook for the rubber industry is not as discouraging as it seemed at first. Likewise, there is a definite suspicion that the scare headlines playing up the early Japanese successes have caused the securities of many rubber manufacturers to overdiscount the adverse effects of the curtailment of Malayan supplies.

Many companies admittedly will suffer severely. Manufacturers who have concentrated largely on the passenger car and replacement tire markets will see their production sharply curtailed, even though allocated the bulk of what remains of (*Please turn to page* 514)

FOR PROFIT AND INCOME

Soft Drink Industry Hit

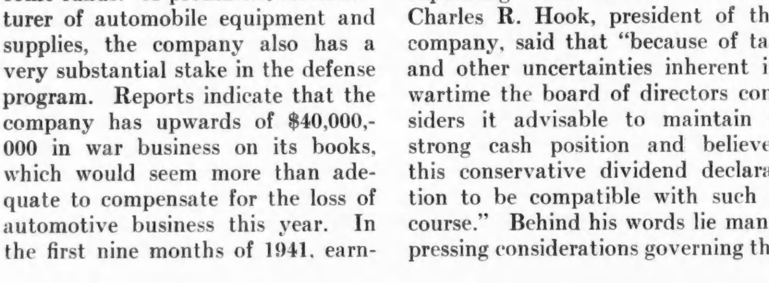
Recent market weakness in the shares of leading manufacturers of soft drinks reflect the uncertainties arising from the threatened shortage of sugar, the most vital raw material to these companies. Coca-Cola, the "blue chip" of the group, is currently quoted some 35 points under the 1941-42 high. The company has inaugurated a policy of rationing deliveries to its customers and it is not an unusual experience to find retailers with supplies exhausted. If this situation exists during the relatively slack winter months, it will most certainly get worse before it gets better, when the summer peak arrives. Moreover there is scant consolation in the fact that most of the leading soft drink manufacturers foresightedly provided themselves with substantial inventories of raw materials. The Government may requisition a part of these supplies. Recently Pepsi-Cola company agreed with OPM to part with 40,000 tons of sugar to New York refiners. Incidentally, Pepsi-Cola distributes its product in a 12-oz. bottle—twice the size of Coca-Cola, and for the same price—and a shortage in sugar may prove an extremely difficult problem for this company. Other difficulties for this group of companies may arise in the operation of distributing fleets, bottle capping, flavoring extracts, containers and freight space. The Army and Navy will get a full quota of their favorite soft drink, but civilians will have to get along with less.

Houdaille-Hershey "A"

Recently quoted around 34, and paying dividends of $2.50 annually, Houdaille-Hershey "A" shares invite favorable consideration for income funds. A prominent manufacturer of automobile equipment and supplies, the company also has a very substantial stake in the defense program. Reports indicate that the company has upwards of $40,000,000 in war business on its books, which would seem more than adequate to compensate for the loss of automotive business this year. In the first nine months of 1941, earnings available for the class "A" shares were equal to better than $10 a share, and for the full year were probably in the neighborhood of $15 a share, or six times the dividend rate. The 174,000 shares of "A" stock outstanding are followed by 785,000 shares of "B" stock on which dividends of $1.50 a share were paid last year and in 1940. The "A" shares are convertible into two shares of "B", but at the present time this privilege is without value.

Earnings-Dividend Relationship

The recent action of American Rolling Mills in declaring a 25-cent dividend on the common stock, after having previously paid four quarterly dividends of 35 cents, directs attention to the fact that in the present setting substantial earnings do not necessarily mean that the stockholder can expect to find his share increased proportionately. In explaining the lower dividend, Charles R. Hook, president of the company, said that "because of tax and other uncertainties inherent in wartime the board of directors considers it advisable to maintain a strong cash position and believes this conservative dividend declaration to be compatible with such a course." Behind his words lie many pressing considerations governing the



Globe American Corp., turns out an all-steel life boat, complete and ready for use, every two hours. These boats are standard equipment on 312 Liberty ships.

decision aside from the recent and prospective earnings position of the company. If for no other reason, a corporation today is faced with the compelling need to conserve cash to meet greatly increased tax payments. In addition payrolls have expanded greatly — another cash item—while inventories have of necessity been enlarged beyond normal proportions. These conditions are going to govern the action of many companies in their treatment of stockholders over the coming months, and investors should make ample allowance for these conditions and modify their dividend expectations accordingly.

One Times Earnings

In the fiscal year ended Nov. 30, last, Phillips-Jones Corp., reported earnings equal to $7.45 a share for the common stock. The common stock is quoted on the New York Stock Exchange at about $8.25 a share. This just about represents the nadir in the conservative appraisal of earnings which has featured stock prices for some months past. True the company, engaged in the manufacture of men's shirts, collars and pajamas, has not had an impressive earnings background, and unpaid dividends on the preferred stock total $29.75 a share. Nevertheless, it would appear that even the most conservative measure of the speculative prospects would justify somewhat higher levels for the shares. This year the company should continue to have the benefit of increased consumer purchasing power and additional Government contracts, a prospect which lends a measure of speculative attraction to both the preferred and common shares, the latter having been recently quoted around 77.

Millennium

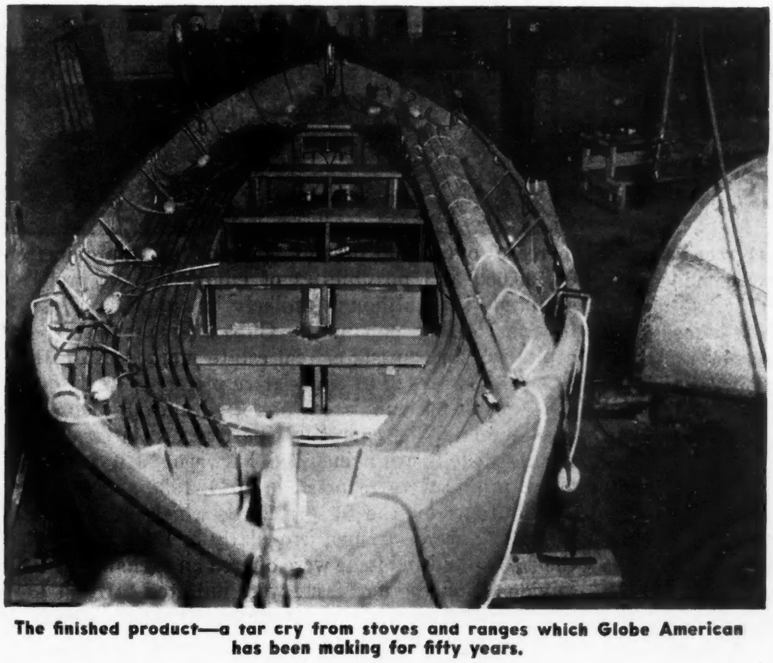
Erie R.R. common has long been regarded as the one stock which would never pay a dividend. That stigma may well pass into the limbo of other Wall Street truisms. Recently the company announced a $5 dividend on the new preferred "A" shares, the full 1942 payment. The way is now open for the declaration of dividend on the new common stock. Gross revenues of the road increased more than 23 per cent last year, while income available for fixed charges was up nearly 56 per cent.

Merchandising Problems

Members of National Retail Dry Goods Assn., at their recent annual meeting, viewed the current outlook with mixed feelings. Customers were indulging themselves in a post-holiday spree of stocking up, fearful of shortages and rising prices, and merchants knew only too well that a considerable portion of recent sales were made at the expense of future business. Retailers themselves have plenty of reason to be concerned over impending shortages and rising overhead. They face a considerable task in selling substitutes to their customers, while at the same time cutting down on the services rendered to these customers. Deliveries will have to be curtailed and such other expedients as the elimination of C.O.D.s, returns, etc., may be adopted. With motorists forced to conserve their tires, department stores in large urban areas may find this a boon, while those in smaller urban communities may find many of their rural customers shopping nearer home or via the mail order route. Finally, the handling of inventories will demand the best of managerial skill with the problem revolving around the question whether or not, and to what extent, inventories should be bought ahead. All of which makes it virtually certain that widely divergent results will be shown this year by leading department stores and general retail organizations.

Stoves Into Boats

"You never know what you can do until you try" is aptly illustrated in the case of the Globe American Corp., which has converted a sizable portion of its plant facilities located in Kokomo, Indiana, to the manufacture of steel life boats. For more than fifty years the company has been engaged in the manufacture of stoves, and electric and gas ranges. Although the company's plants are located 1,000 miles from the Atlantic Coast and 2,000 miles from the Pacific Coast, the design which it submitted for steel life boats has been accepted as standard equipment for the first 312 Liberty ships. The company has adopted production line methods to the manufacture of these boats and turns out one completed every two hours. If necessary output could be stepped up to nine boats a day. This achievement is heartening in that it is in the best traditions of American industry, ingenuity and willingness to do a bangup job in an emergency.



The finished product—a far cry from stoves and ranges which Globe American has been making for fifty years.

Six Common Stocks In Strategic Position

Briggs Manufacturing

While the recent weakness in Briggs Manufacturing, which saw the shares reach a low of 14¼, may be temporarily justified by the enforced curtailment of automobile production, the stock appears to be under-discounting the company's prospects under the $59,000,000,000 arms program. Briggs will unquestionably suffer during the next few months from the loss of regular customers for its automobile parts and plumbing divisions, and because of this, earnings for all of 1942 are likely to fall short of the $3.10 a share or better estimated for 1941. The company will be by no means devoid of business, however. Subcontracting of airplane wing and other assemblies, started in 1940, is already well under way and the present backlog of war orders is estimated as being well in excess of $70,000,000. The new $10,000,000 plant will be completed by the middle of the year and production will start on a $23,000,000 order for gun turrets. Substantial additional aircraft work and other subassemblies should be received as the armament program gets into full swing. Profit margins will be less than on regular lines, but large facilities and the well recognized efficiency of the management should produce satisfactory results. The chief question in the Briggs outlook is the company's vulnerability to any marked increase in excess profits taxes. Dividends should be relatively generous, in accordance with past policy. Capitalization consists solely of 1,979,000 shares of no par common stock.

Cuban American Sugar

Although Cuban American Sugar has received less market attention than some of the other companies in the industry, it appears to have excellent prospects for 1942. Recent developments point to much higher earnings and indicate that dividend arrears totaling $50 a share on the $7 preferred stock, but aggregating only $451,350, may be eliminated by the end of the year and the way paved for distributions on the common. Cuban American is one of the largest Cuban producers and has a capacity of 2,500,000 bags of sugar per season. In addiition to its producing properties, it operates refineries in Cuba and New Orleans which had a combined output of 214,794 pounds during the 1940 fiscal year. Earnings for the fiscal year ended September 30, 1941, were the best in many years, amounting to $1.02 a share on the common stock. Sugar production was about 1,000,000 bags of 325 pounds each and is believed to have been sold for an average price of slightly less than 2 cents a pound. Company officials estimate that production for the current fiscal year will be stepped up to around 1,500,000 bags. In contrast to the 1941 price, the sugar will be sold at the equivalent of 2.65 cents a pound, under the agreement by which the United States purchases the entire current Cuban crop. While no accurate estimate is possible because of tax uncertainties, earnings should be up sharply, favored by the company's relatively large capital exemption. Cash holdings also should

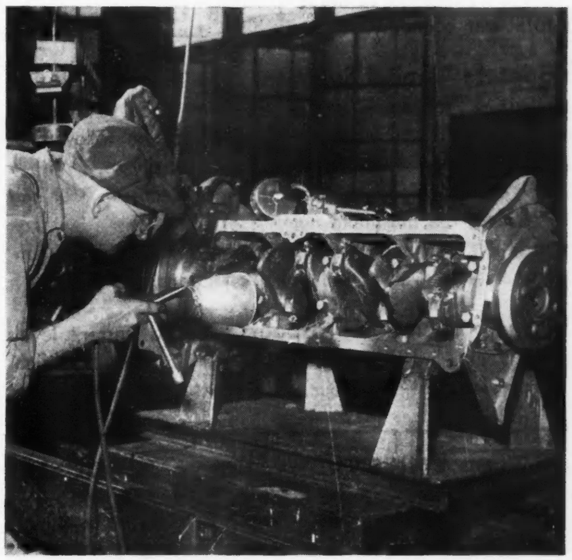
increase over the present amount of approximately $7,500,000 and possibilities of elimination of preferred accumulations, although unlikely in one operation, will be considerably enhanced. Cuban American's present capitalization consists of real estate mortgages of $178,374, 8,997 shares of $7 cumulative preferred stock, 80,735 shares of $5.50 cumulative preferred and 981,500 shares of common. The company's past record is erratic and sizable deficits were incurred between 1929 and 1935. Small profits were reported in 1935, 1936 and 1937 and distributions on the $7 preferred, which were omitted after 1929, were resumed irregularly in 1936. Holders of the $5.50 preferred issue were offered an exchange in 1940. Dividends on the new issue were initiated early in 1941. The common stock, recently selling for 8¼, is around its highs of the last two years.

Inspiration Consolidated Copper

Inspiration Consolidated Copper should be able to show a substantial increase in net income under the Government's recently announced price ceiling of 17 cents a pound on all copper in excess of 1941 production. Although one of the largest producers in Arizona, Inspiration's reserves, averaging 1.4 per cent copper, are largely low grade and it has been necessary to hold operations to the capacity of the leeching plant, where costs average around 9 cents a pound. Operating at the level so imposed, the company produced 37,745 tons of copper in 1940 and reported net income of $1.87 a share. Production figures in 1941 probably approximated the previous year, although higher taxes are believed to have caused a slight decline in earnings. At the 17-cent price, however, the higher cost milling plant, using the Dual Process, can be utilized, output can be increased about 50 per cent to around 60,000 tons annually and profits should rise roughly in proportion. On this basis, Inspiration might earn between $2.50 and $3 a share in 1942. Some recognition has already been given to this possibility in the price of the stock which recently sold at 11⅝ as compared with a 1941-42 low of 8⅛. In spite of the prospect of higher earnings, the necessity for decreasing funded debt is likely to force a conservative fiscal policy on the management and any dividend increases over the $1 paid in 1941 will probably be small. Inspiration's 1,181,967 shares of common stock are preceded by $4,532,000 First Mortgage 4's of 1952, on which sinking fund provisions are tied to the price of copper. Anconda, through which output is sold, owns a 28 per cent interest in the company.

Spicer Manufacturing

The foresight shown by the management of Spicer Manufacturing in recognizing the accelerating nature of the arms program places the company in an enviable position within the automobile equipment industry for 1942. Spicer's normal business consists of the manufacture of transmissions, axles, controls, propeller shafts, shock absorbers, side housings, joints and frames for trucks and passenger cars. Early in 1940, however, the management apparently recognized the growing importance of armaments and engaged in this type of business on an increasing scale. As a result the problem of conversion to an all-out arms program has been largely completed and the company has sufficient orders for propeller shafts and transmissions for Army trucks and tanks to insure capacity operations for a long time to come. Facilities for defense work have been increased by the acquisition of new plants and financial arrangements have been made with the company's banks of deposit to borrow $1,500,000 for working funds, with additional capital available if needed. Defense business played an important part in bringing Spicer's earnings to the record level of $9.42 a share for the fiscal year ended August 31, 1941, well above the previous peak of $7.08 a share made in 1940. In view of the probability of well maintained earnings, possibilities of an increase in dividends over the total of $3.75 a share paid last year are reasonably good. A declaration of $1 has already been made for the first quarter of 1942. The past earnings record is satisfactory and the stock is entitled to sell on a relatively high price-earnings ratio. The chief drawback is that the company is vulnerable to an invested capital tax, or its equivalent. The shares recently sold at 35¼, as compared with a 1941-42 range of 38½-27½.



National Malleable & Steel Castings

Congressional approval of the I C C report stressing the need for a large amount of new rail equipment to handle greatly increased traffic should insure a continuation of the favorable earnings trend shown by National Malleable & Steel Castings in 1940 and 1941. While the company has substantial orders for a wide range of iron and steel castings to be used in the construction of freight cars and is operating at capacity, some difficulty has been experienced in getting adequate materials. Consummation of present plans, which are said to call for a doubling of 1941 freight (*Please turn to page 514*)

Opportunities in Low-Priced Stocks!

Exceptional Short-Term Profit Possibilities Now Developing in Low-Priced Common Stocks

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> **Today's war economy is creating new opportunities for capital appreciation in low-priced common stocks.**
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> **Three Unusual Opportunities . . . averaging under 11 . . . have been selected. To capitalize on the anticipated improvement in these stocks . . . we suggest that you enroll with The Forecast—NOW.**

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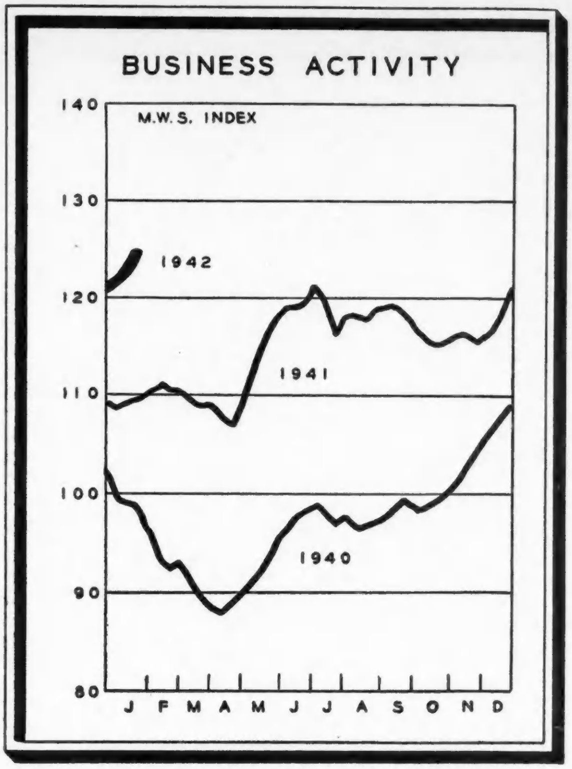


CONCLUSIONS

INDUSTRY—Inflation spiral swells war cost, taxes and public debt.

TRADE—Retail sales still booming under talk of shortages and rationing.

COMMODITIES—Prices of farm commodities drop sharply on threat of releasing Government supplies.

MONEY AND CREDIT—Federal Reserve banks sell Treasury securities. Commercial borrowings at new high.

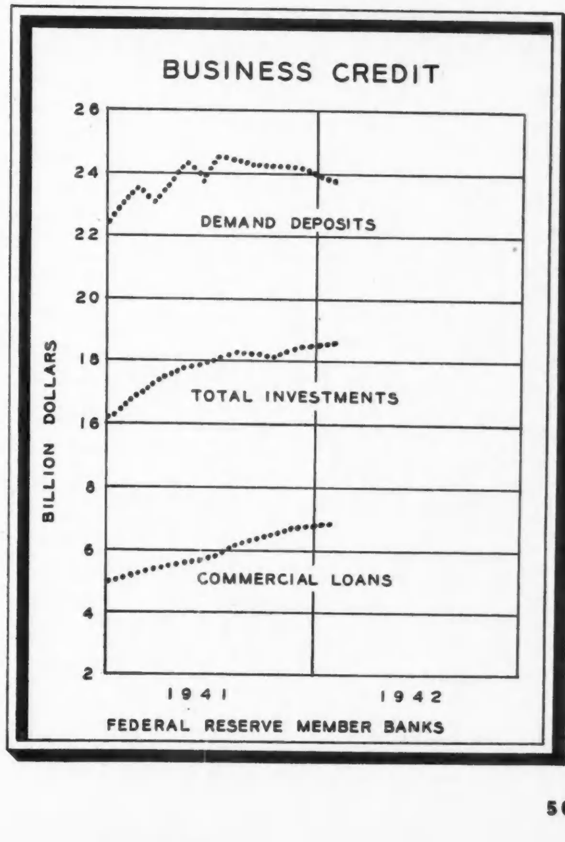
The Business Analyst

The unusually sharp rise of approximately three points in per capita **Business Activity** to a new all time high during the past fortnight is attributable in part to quickened delivery of goods in anticipation of expected higher **railroad** freight rates, and partly to acceleration in the rate of armament production as reflected in the check payment component of our weekly business index.

* * *

Income payments last year are estimated at $92.2 billion, an increase of $16.2 billion, or 18.6%, over 1940. Since about one-third of this increase was dissipated in higher **prices,** the gain in purchasing power of last year's national income was only 12.4%. Professor Frederick C. Mills of Columbia University states that, while the dollar value of goods produced in the first world war year, 1918, was 150% above 1913, the physical volume of production rose only 25%. No wonder Senator Taft envisions a public debt of $200 billion before the present war ends. Military expenditures by the U. S. and British Governments in this country amounted to $15 billion last year, accounting for all but $1.2 billion of the gain in national income. The nation's **payrolls** last year totaled $48 billion, an increase of only 9% over 1940; yet **retail sales,** at $53.5 billion, rose 17%.

(Please turn to following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Jan.	167	168	140
INDEX OF PRODUCTION AND TRADE (b)	Dec.	110	111	102
Production	Dec.	117	117	105
Durable Goods	Dec.	123	124	103
Non-Durable Goods	Dec.	113	112	106
Primary Distribution	Dec.	105	107	95
Distribution to Consumers	Dec.	98	100	101
Miscellaneous Services	Dec.	105	104	96
WHOLESALE PRICES(h)	Dec.	93.6	92.5	80.0
INVENTORIES (n. i. c. b.)				
Inventories	Nov.	156.9	154.3	124.3
New Orders	Nov.	237	237	213
Shipments	Nov.	201	206	150
COST OF LIVING (d)				
All Items	Dec.	93.4	92.9	85.8
Food	Dec.	92.6	92.2	78.2
Housing	Dec.	89.9	89.5	87.5
Clothing	Dec.	80.1	79.6	73.0
Fuel and Light	Dec.	90.3	90.2	86.5
Sundries	Dec.	102.8	101.9	98.1
Purchasing Value of Dollar	Dec.	107.1	107.6	116.6
NATIONAL INCOME (cm)†	Oct.	$8,262	$8,064	$6,812
CASH FARM INCOME†				
Farm Marketing	▼Nov.	$1,245	$1,306	$899
Including Gov't Payments	Nov.	1,313	1,485	942
Total, First 11 Months	Nov.	10,488	......	8,257
Prices Received by Farmers (ee)	Dec.	143	135	98
Prices Paid by Farmers (ee)	Dec.	144	143	128
Ratio: Prices Received to Prices Paid (ee)	Dec.	99	94	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	144.2	144.0	115.5
Non-durable Goods	Nov.	125.2	127.1	113.8
FACTORY PAYROLLS (f)	Nov.	165.5	166.6	116.4
RETAIL TRADE				
Department Store Sales (f)	Dec.	110	115	101
Chain Store Sales (g)	Dec.	157	151	128
Variety Store Sales (g)	Dec.	160	153	140
Rural Retail Sales (j)	Nov.	186	167	138
Retail Prices (s) as of	Nov.	107.5	106.2	93.7
FOREIGN TRADE				
Merchandise Exports†	Oct. & Nov.	$1,157	......	$671
Cumulative year's total† to	Nov. 30	4,492	......	3,703
Merchandise Imports†	Oct. & Nov.	585	......	430
Cumulative year's total† to	Nov. 30	3,002	......	2,372
RAILROAD EARNINGS				
Total Operating Revenues★	Nov.	$457,012	......	$375,499
Total Operating Expenditures★	Nov.	335,614	......	259,518
Taxes★	Nov.	40,586	......	33,690
Net Rwy. Operating Income★	Nov.	68,765	......	71,560
Operating Ratio %	Nov.	73.44	......	69.11
BUILDING Contract Awards (k)	Dec.	$432	$459	$456
F. H. A. Mortgages				
Selected for Appraisal†	Dec.	14	73	17
Accepted for Insurance†	Dec.	12	56	13
Premium Paying†	Dec.	19	77	18
Building Permits (c)				
214 Cities†	Dec.	87	87	99
New York City†	Dec.	7	5	15
Total, U. S.†	Dec.	94	92	114
Engineering Contracts (En)†	Dec.	......	$349	$399

PRESENT POSITION AND OUTLOOK

(Continued from page 505)

The compromise **price control** bill, just passed by a lobby-conscious Congress, might be titled more fittingly: "An Act to Condone Inflation." Under its system of multifarious bases for determining price ceilings, prices commanded by various products of the soil could advance 37% to 100% above recent quotations, and then some if organized labor clings to its recently announced policy of forcing up **wages** several jumps ahead of the cost of living. At present writing, **wholesale prices** other than farm products and foods are 12% higher than a year ago; but farm products have jumped 41% and foods are up 28%. **Retail prices** are 15% above last year and **living costs** 9%. In Canada the cost of living has risen 15% since Aug. 1, 1939, against only 10% in the U. S.

* * *

Spurred by talk of shortages and rationing, **retail sales** are showing phenomenal increases over last year. **Department store sales** in the four weeks ended Jan. 17 were up 36%, while **mail order** houses are being swamped with business and January profits were unusually large. Merchandise **exports** in the first eleven months of last year were 21% ahead of the like period in 1940, **imports** were up 28%, and excess exports amounted to $1,490,000.

* * *

Carloadings, swollen by fast expanding war goods production and rush shipments to beat expected increases in freight rates, are making new seasonal highs weekly. The recently granted 10% increase in passenger fares, adding an estimated $60 million to **railroad** income, will become effective on February 10. Bus lines have been granted a 10% increase to compensate for rising wages, taxes and other costs. Around Feb. 20, I. C. C. decision is looked for allowing virtually all freight rate increases requested by the carriers. This would add another $312 million to income and, along with passenger fare increase, a little more than compensate for higher operating costs and last year's wage increases. Late this year or early next, however, rail workers may attempt to capitalize on the rate advances by asking further wage increases. This would necessitate more rate advances, and so "the music goes round and round" in an endless upward spiral of inflation. An embargo has been placed upon all traffic destined for inter-coastal steamship shipment, which henceforth wi'l be handled by rail, now that all inter-coastal bottoms have been taken over by the Maritime Commission. Passenger traffic too will be swollen by the growing shortage of tires. The carriers have paid off nearly half of the $811 million loans advanced to them by the R. F. C., most of the balance being owed by defaulted systems.

* * *

Building contracts awarded last year in 37 states east of the Rockies totaled $6 billion, or 50% ahead of 1940. Residential contracts reached nearly $2 billion last year, a 22% increase over 1940. Engineering construction contracts in the first three weeks were 16% below last year.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	7,164	6,970	6,495
Pig Iron Production in tons★	Dec.	5,012	4,703	4,548
Shipments, U. S. Steel in tons★	Dec.	1,846	1,624	1,545
AUTOMOBILES				
Production				
Factory Sales	Nov.	352,347	382,000	487,352
Total First 10 Months	Nov.	4,561,970	......	3,985,764
Registrations				
Passenger Cars, U. S. (p)	Nov.	163,126	165,485	301,430
Trucks, U. S. (p)	Nov.	35,985	41,352	46,618
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	383	406	368
Shipments, U. S. & Canada★ (tons)	Nov.	405	392	377
Mill Stocks, U. S. & Canada★ (tons)	Nov. 30	152	174	193
LIQUOR (Whisky)				
Production, Gals.★	Dec.	13,632	11,828	12,316
Withdrawn, Gals.★	Dec.	6,832	8,143	1,649
Stocks, Gals.★	Dec. 31	511,211	505,557	479,102
GENERAL				
Paperboard, new orders (st)	Nov.	527,829	595,634	426,614
Machine Tool Output (millions of $)	Nov.	85.1	74.6	53.8
Railway Equipment Orders (Ry)				
Locomotives	Nov.	2,270	3,574	6,414
Freight Cars	Nov.	42	43	58
Passenger Cars	10 Mos.	621	......	264
Cigarette Production†	Dec.	16,201	17,141	13,815
Bituminous Coal Production★ (tons)	Dec.	46,667	43,770	41,400
Portland Cement Shipments★ (bbls.)	Dec.	11,511	13,724	8,192
Commercial Failures (c)	Dec.	898	842	1,086

PRESENT POSITION AND OUTLOOK

WPB has permitted a March increase of 34% over last year in production of medium and heavy **trucks,** with no limit on output of buses and trailers. Field stocks amounting to about 650,000 new **passenger cars** and 50,000 light trucks are being rationed. Sales prices will premit reasonable net profit to dealers. Industry now has about $5.5 billion war orders. Gallup poll shows car owners expect to reduce mileage by about 20%.

* * *

Unless the Government accepts offer to convert all of distilling industry to industrial alcohol, production of **whiskey** will go on as usual; since capacity asked by the Government consists merely of equipment now idle or devoted to gin and blended stock. Congress will not vote prohibition.

* * *

Cigarette withdrawals in December reached a new all time high at 17% above last year, making the 1941 increase over 1940 about 20%. American Tobacco Co. reports 1941 profits somewhat better than expected, and hopes to restore the $1.00 quarterly dividend. OPA has granted a small increase in ceiling price on "10c brands."

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan. 24	125.9	123.6	110.2
ELECTRIC POWER OUTPUT				
K. W. H.†	Jan. 24	3,440	3,450	2,996
TRANSPORTATION				
Carloadings, total	Jan. 24	817,804	811,196	710,752
Grain	Jan. 24	47,148	49,488	30,772
Coal	Jan. 24	162,799	174,142	154,533
Forest Products	Jan. 24	47,343	43,993	39,009
Manufacturing & Miscellaneous	Jan. 24	370,444	355,287	299,592
L. C. L. Mdse	Jan. 24	149,455	146,688	149,862
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 27	23.61	23.61	23.45
Scrap $ per ton (m)	Jan. 27	19.17	19.17	20.42
Finished c per lb. (m)	Jan. 27	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 31	97.0	96.5	97.0
PETROLEUM				
Average Daily Production bbls.★	Jan. 24	4,311	4,046	3,599
Crude Runs to Stills Avge. bbls.★	Jan. 24	3,885	3,723	3,605
Total Gasoline Stocks bbls.★	Jan. 24	96,363	95,617	88,302
Fuel Oil Stocks bbls.★	Jan. 24	92,079	92,703	98,178
Crude—Mid-Cont. $ per bbl	Jan. 31	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Jan. 31	2.23	2.23	1.72
Gasoline—Refinery $ per gal	Jan. 31	.083	.08	.05⅜

PRESENT POSITION AND OUTLOOK

Electric power output last year topped 1940 by 16%. Since new capacity cannot be installed fast enough to meet swiftly expanding demand, the FPC thinks that electric power available for civilian use may be cut in some regions as much as 50% by the 1942-3 armament program. Plans have been completed to construct four "floating power" plants of 30,000 kilowatts each for emergency use along the Great Lakes and the Ohio-Missouri-Mississippi waterways systems. Daylight saving will release a maximum of only 2% of the nation's installed capacity. Agitation for lower electric and telephone rates is out for the duration.

* * *

War demand is expected to take up to 90% of **steel** production. Iron ore consumption last year reached the record total of 76.3 million tons—22% over 1940.

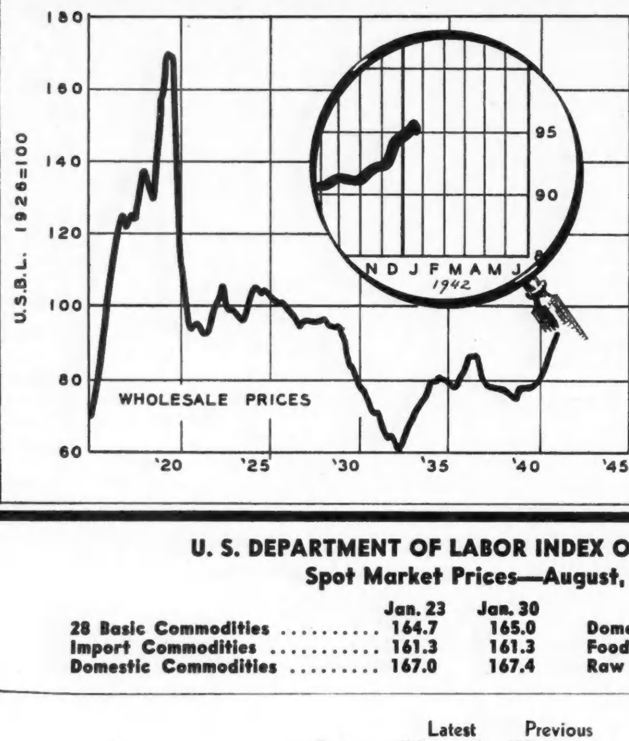
* * *

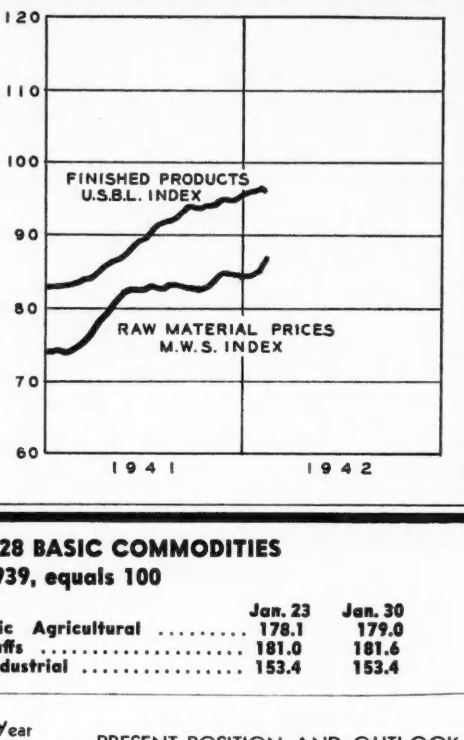
Department of Interior estimates domestic **crude oil** demand for February at 15% above last year, despite tire rationing. There are 1.5 million more cars on the road now than a year ago, while export and defense demand for motor fuel has nearly doubled. Owing to coastal sinkings of tankers, shippers are urged to make maximum use of tank cars. **Gasoline** retail prices before taxes are 16% over last year.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

The Emergency Price Control Act became the law of the land last week, but in sharp contrast to the previous week when it became evident that President Roosevelt would not withhold his approval and farm prices soared, last week brought sharp declines in agricultural commodity prices when the President indicated that substantial supplies might be released from loan stocks and Secretary of Agriculture Wickard reversed his previous stand. Previously Wickard had voiced his belief that it might be necessary to permit prices of certain farm commodities to rise above the 110 per cent parity level in order to assure adequate production. Last week he said that prices should not be allowed to rise much above parity in any case and in some instances should be restrained below parity. As a result the whole farm price situation has become confused. It is difficult to see how authority could be obtained, under existing legislation, to restrain prices below the parity level, except by sales of Commodity Credit Corp., stocks. President Roosevelt emphasized the latter point when affixing his signature to the Emergency Price Control Act.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

	Jan. 23	Jan. 30
28 Basic Commodities	**164.7**	**165.0**
Import Commodities	**161.3**	**161.3**
Domestic Commodities	**167.0**	**167.4**
Domestic Agricultural	**178.1**	**179.0**
Foodstuffs	**181.0**	**181.6**
Raw Industrial	**153.4**	**153.4**

	Date	Latest Wk. or Mo.	Previous Wk. or Mo	Year Ago
COTTON				
Price cents per pound, closing				
March	Jan. 30	18.94	19.07	10.39
May	Jan. 30	19.12	19.19	10.40
Spot	Jan. 30	20.48	20.59	10.92
(In bales 000's)				
Consumption, U. S.	Dec.	887	850	777
Exports (Ex-Linters)	Oct.	166,668	189,215	......
Imports (Ex-Linters)	Oct.	40,696	25,413	......
Government Crop Est.	Dec. 1	10,976	......	12,686(ac)
Active Spindles (000's)	Nov.	22,063	23,069	22,799
WHEAT				
Price cents per bu. Chi. closing				
May	Jan. 30	131⅛	132⅛	82⅜
July	Jan. 30	132¾	133⅝	76⅜
Exports bu. (000's)	Sept.	5,767	3,137	......
Gov't Crop Est. bu. (000's)	Dec. 1	945,937	......	816,698(ac)
CORN				
Price cents per bu. Chi. closing				
May	Jan. 30	88⅝	89⅜	61¼
July	Jan. 30	90⅜	91¼	61½
Exports bu. (000's)	Sept.	2,834	1,211	.....
Gov't Crop Est. bu. (000's)	Dec. 1	2,672,541	......	2,449,200(ac)

PRESENT POSITION AND OUTLOOK

Cotton. After achieving the best price levels in more than 12 years in the preceding week, cotton prices last week broke sharply, following President Roosevelt's expression of dissatisfaction over the farm price provisions in the price control measure. On Saturday of last week prices broke as much as $2.85 a bale, following the President's ruling that government-owned stocks of cotton might be released to war agencies. This was in affect a potential increase of 4,000,000 bales in available supplies.

* * *

Wheat. New highs earlier in the week were of brief duration and prices sagged following Secretary of Agriculture Wickard's remarks, referred to above, coupled with the expressed intention of President Roosevelt to release loan stocks of farm commodities if circumstances warranted. Prices were down 2½ cents for the week. Soy bean prices after reaching an all-time high recorded a net loss of ¼ cent for the week. Rye was down 3¼ cents, on reports that 200,000 bushels were being imported from Argentina at prices below the domestic market.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Jan. 30	12.00	12.00	12.00
Exports f. a. s. N. Y.	Jan. 30	11.00	11.00	10.25
Refined Prod., Domestic*	Dec.	86,961	84,718	85,135
Refined Del., Domestic*	Dec.	137,368	123,168	112,681
Refined Stocks, Domestic*	Dec. 31	75,564	72,352	142,772
TIN				
Price cents per lb. N. Y.	Jan. 30	52	52	50.50
Tin Plate, price $ per box	Jan. 30	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	Dec.	7,700	8,355	9,200
U. S. Visible Supply† as of	Nov. 30	2,186	1,127	4,362
LEAD				
Price cents per lb., N. Y.	Jan. 30	6.50	6.50	5.50
U. S. Production*	Dec.	57,181	48,930	61,906
U. S. Shipments*	Dec.	50,680	45,980	56,755
Stocks (tons) U. S., as of	Dec. 31	20,185	13,671	40,927
ZINC				
Price cents per lb., St. Louis	Jan. 30	8.25	8.25	7.25
U. S. Production*	Dec.	78,635	74,951	65,354
U. S. Shipments*	Dec.	77,755	73,363	70,270
Stocks, U. S. as of*	Dec. 31	23,182	21,594	22,498
SILK				
Price $ per lb. Japan xx crack	Jan. 30	3.57	3.57	2.56
Mill Dels. U. S. (bales)	Nov.	5,676	4,160	36,374
Visible Stocks U. S. (bales) as of	Nov. 30	55,486	57,508	60,330
RAYON (Yarn)				
Price cents per lb	Jan. 30	53	53	53
Consumption (a)	Nov.	38.6	41.7	34.8
Stocks as of (a)	Nov. 30	4.5	5.4	6.7
WOOL				
Price cents per lb., raw, fine, Boston	Jan. 30	1.07	1.07	96½
Consumption, period ending (a)	Nov. 30	51,500	60,600	45,800
HIDES				
Price cents per lb. No. 1 Packer	Jan. 30	15½	15½	13
Visible Stocks (000's) as of	Oct. 31	13,997	13,496	13,377
Boot and Shoe Production, Prs.★	Nov.	34,702	46,655	30,533
RUBBER				
Price cents per lb	Jan. 30	22½	22½	20.62
Imports, U. S.†	Oct.	72,222	83,151	74,716
Consumption, U. S.†	Oct.	60,418	53,655	59,644
Stocks, U. S., as of	Oct. 31	454,711	473,684	235,353
Tire Production (000's)	Dec.	2,967	3,964	4,968
Tire Shipments (000's)	Dec.	2,604	4,048	4,991
Tire Inventory (000's) as of	Dec. 30	4,417	4,043	9,127
COCOA				
Price cents per lb	Jan. 30	8.78	8.68	5.23
Arrivals (bags 000's)	Dec.	190	206	671
Warehouse Stocks (bags 000's)	Jan. 30	1,342	1,352	1,339
COFFEE				
Price cents per lb. (c)	Jan. 30	13⅜	13⅜	8¼
Imports, season to (bags 000's)	Dec.	1,110	......	5,062
U. S. Visible Supply (bags 000's)	Jan. 1	2,187	2,024	2,123
SUGAR				
Price cents per lb.				
Raw	Jan. 30	3.74	3.74	2,95
Refined (Immediate Shipment)	Jan. 30	5.45	5.45	4.45
U. S. Deliveries (000's)*	11 mos.	7,360	......	6,324
U. S. Stocks (000's)* as of (rr)	Nov. 30	524	713	582

PRESENT POSITION AND OUTLOOK

Copper. Maximum prices for brass and bronze ingots became effective on Feb. 1, with some minor adjustments both up and down. Announcement was made that a total of 66,000 tons of copper concentrates and 99,000 tons of copper ore would be purchased from Chile over a period of 18 months, at a price of 11.75 cents.

* * *

Tin. Domestic tin consumption is estimated at about 72,000 tons, with cuts in non-essentials. Present supplies are enough for three years according to trade reports.

* * *

Lead. Production in December totaled 57,181 tons, an increase of 8,251 tons over November and shipments amounted to 50,680 tons. Stocks at the end of the month were 20,105 tons as compared with 13,671 tons at the end of November.

* * *

Zinc. Formal price ceilings have been established for slab zinc on a basis of 8.25 cents per pound, East St. Louis. Reported dealer sales at prices above the previously pegged levels were responsible for the formal order.

* * *

Rayon. Yarn producers deferred booking of March orders on the request of W.P.B. in order to enable the latter to revise allocations in order to provide larger supplies for the hosiery industry. Need for the increase was brought about by the increasing use of nylon by the military forces.

* * *

Wool. Should the Japanese imperil the Australian wool supply, civilian consumption will be curtailed. It will be recalled that in the last war the Government commandeered all the nation's wool including domestic supplies and imports.

* * *

Hides. Reports indicate that owing to the substantial stocks of shoes in the hands of both retailers and consumers, shoe production this year may be somewhat under the level of 1941. An increasing number of permits have been issued for the import of Argentine hides.

* * *

Rubber. Petroleum interests have indicated that sufficient supplies of raw materials for the manufacture of synthetic rubber will be available to meet the Government's goal of 400,000 tons annually. This will require 35,000 barrels of butanes daily.

* * *

Cocoa. Prices ranges have been narrow and trading interest has been dull. Price amendments are still being awaited. Arrivals thus far this year are substantially under the 1941 level.

* * *

Coffee. The Henderson report will apparently do nothing to change the status quo of the domestic coffee trade. Ceiling prices and quotas remain unchanged.

* * *

Sugar. Refiners are scheduled to receive their allotments of the Cuban crop in the near future. Arrangements are also approaching completion to provide the necessary shipping space. It is possible, however, that some refineries will have to cease operations before the end of the month owing to the lack of raw supplies.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available. (r. r.)

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Jan. 31	1¼%	1¼%	1¼%
Prime Commercial Paper	Jan. 31	½-¾%	½-¾%	½-¾%
Call Money	Jan. 31	1%	1%	1%
Re-discount Rate, N. Y.	Jan. 31	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Jan. 18	4,000	......	3,189
Cumulative year's total to	Dec. 31	199,164	......	150,758
Bank Clearings, N. Y.	Jan. 18	3,788	......	3,124
Cumulative year's total to	Dec. 31	174,263	......	160,878
F. R. Member Banks				
Loans and Investments	Jan. 21	30,211	30,233	25,684
Commercial, Agr., Ind. Loans	Jan. 21	6,721	6,728	5,055
Brokers Loans	Jan. 21	444	518	465
Invest. in U. S. Gov'ts	Jan. 21	12,630	12,281	9,977
Invest. in Gov't Gtd. Securities	Jan. 21	2,709	2,978	2,743
Other Securities	Jan. 21	3,673	3,666	3,677
Demand Deposits	Jan. 21	24,426	24,169	22,898
Time Deposits	Jan. 21	5,254	5,281	5,427
New York City Member Banks				
Total Loans and Invest	Jan. 28	12,192	12,161	10,394
Commercial, Ind. & Agr. Loans	Jan. 28	2,629	2,599	1,943
Brokers Loans	Jan. 28	310	307	321
Invest. in U. S. Gov'ts	Jan. 28	5,505	5,512	4,372
Invest. in Gov't Gtd. Securities	Jan. 28	1,461	1,460	1,577
Other Securities	Jan. 28	1,471	1,464	1,391
Demand Deposits	Jan. 28	10,500	10,361	10,632
Time Deposits	Jan. 28	734	730	735
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 28	13,075	13,145	14,347
Money in Circulation	Jan. 28	11,097	11,077	8,548
Gold Stock	Jan. 28	22,744	22,750	22,110
Treasury Currency	Jan. 28	3,256	3,255	3,097
Treasury Cash	Jan. 28	2,196	2,204	2,200
Excess Reserves	Jan. 28	3,480	3,580	6,800
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Dec.	112	132	389
New Capital	Dec.	59	42	61
Refunding	Dec.	52	89	328

COMMENT

Market conditions have improved to a point enabling **Federal Reserve** banks to liquidate $6,000,000 of Treasury bills and $1,450,000 of Treasury bonds. The sale of the Treasury bill represents the last of the $12,370,000 acquired after the attack on Pearl Harbor, while last week marked the first occasion the regional banks have been able to release any part of the $60,005,000 Treasury bonds so acquired. Treasury note holdings still stand at $602,500,000. In the same week New York City banks sold $30,000,000 of Treasury notes and $31,000,000 of Treasury bonds.

* * *

In the most recent week excess reserves of all member banks declined $100,000,000 and currency in circulation expanded to $20,000,000. Loans and investments of **New York City Member** banks recorded a gain of $31,000,000, with loans to commerce, industry and agriculture gaining $30,000,000 to the highest level for the past ten years. Demand deposits gained $139,000,000 and the present level $10,500,000,000 compares with the all-time high of $11,291,000,000 at the end of last May.

* * *

It is expected that the new money financing scheduled for the month, recently announced by Secretary Morgenthau, may run as high as $1,000,000,000. This came as something of a surprise as it was generally assumed that the offering would wait until after March 15 tax payments.

* * *

Last week the Senate passed a bill which would permit **Federal Reserve** banks to purchase Government bonds direct rather than in the open market. The authority, however, is permissive rather than mandatory, according to Senator Glass.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1942 Indexes High	Low	Jan. 24	Jan. 31
270 COMBINED AVERAGE	48.6	43.9	48.5	48.4
3 Agricultural Implements	78.3	72.7	78.3	78.2
9 Aircraft (1927 Cl.—100)	172.6	155.2	160.1	155.2
4 Air Lines (1934 Cl.—100)	242.7	228.0	237.6	242.7
5 Amusements	31.7	29.7	31.0	30.9
13 Automobile Accessories	79.3	70.7	76.3	74.9
13 Automobiles	8.8	7.1	8.8	8.8
3 Baking (1926 Cl.—100)	5.9	5.1	5.7	5.7
3 Business Machines	94.1	81.7	93.9	94.1
2 Bus Lines (1926 Cl.—100)	63.9	38.2	58.4	57.7
6 Chemicals	156.3	148.2	149.5	148.2
14 Construction	19.6	17.0	18.4	19.6
5 Containers	158.8	150.0	155.7	158.8
8 Copper & Brass	75.1	69.2	73.8	72.9
2 Dairy Products	27.7	25.8	27.5	27.7
6 Department Stores	16.3	15.2	15.7	15.9
6 Drugs & Toilet Articles	43.5	37.9	43.3	43.5
2 Finance Companies	108.6	99.5	106.6	106.7
7 Food Brands	78.6	73.3	76.6	73.6
2 Food Stores	43.7	41.6	42.8	41.6
4 Furniture	28.1	24.5	28.0	27.6
2 Gold Mining	455.2	331.3	440.0	455.2
6 Investment Trusts	16.4	15.0	15.7	16.4

(Nov. 14, 1936 Close—100)	1942 Indexes High	Low	Jan. 24	Jan. 31
100 HIGH PRICED STOCKS	51.96	50.03	50.87	50.74
100 LOW PRICED STOCKS	38.78	33.57	38.78	38.43
3 Liquor (1932 Cl.—100)	163.3	154.0	156.0	162.5
8 Machinery	83.8	80.1	82.5	82.0
2 Mail Order	53.9	49.6	52.3	52.9
4 Meat Packing	46.0	36.8	46.0	45.0
9 Metals, non-Ferrous	131.7	101.9	129.4	124.9
3 Paper	11.3	10.5	11.2	11.1
21 Petroleum	74.6	70.9	73.8	74.6
16 Public Utilities	19.1	15.1	18.4	18.0
3 Radio (1927 Cl.—100)	7.0	5.9	6.6	6.9
7 Railroad Equipment	37.9	35.2	36.8	36.3
16 Railroads	9.7	7.6	9.7	9.5
2 Realty	1.8	1.3	1.6	1.6
2 Shipbuilding	112.0	105.0	105.0	105.9
12 Steel & Iron	65.0	61.2	63.4	62.8
2 Sugar	40.1	34.2	39.1	40.1E
2 Sulphur	179.4	171.3	173.5	171.3
3 Telephone & Telegraph	36.0	30.6	35.0	36.0
2 Textiles	34.2	31.3	33.9	33.2
3 Tires & Rubber	9.2	7.9	8.9	8.9
4 Tobacco	55.3	52.0	53.6	55.3
2 Variety Stores	187.2	169.9	183.0	179.5
19 Unclassified (1941 Cl.—100)	109.9	100.0	107.7	107.6

E—New HIGH since 1937

Shadow of Coming Events

(*Continued from page* 480)

others. There are richer—more permanent gains that could be had if the same effort were spent in developing maximum home consuming markets and/or investing surplus capital in undertakings contributing to a higher living standard in backward countries and therefore to enlarged consuming markets therein. And like wars of aggression, the colonial trade concept is also an outmoded anomoly in the modern world—for instance British economic exploitation of India.

Suppose, for the sake of this argument, that India might ultimately attain a living standard equal on a per capita basis to that in England—something that could only be done through (1) huge growth of capital investments in extractive and manufacturing industries, transport, power facilities, etc.; and (2) internal policies which permit equitable diffusion of increased national incomes among the masses. On that basis, would the economy of England or of the United States be harmed? Again, the answer is, on the contrary.

On that basis the total of triangular trade among India, Britain and the United States—and the trade of the entire world—would be increased rather than diminished, no matter how great the change in its composition. At least that would be the result in a world order in which realistic economic calculations had a place and in which capitalist initiative had reasonably free rein.

It would not be the result if India emulated Japan in burdening her people with the cost of a vast military and naval establishment and in permitting a small minority of plutocratic families to grow fabulously rich while the masses continued to receive starvation wages. And it would not be the result if India's industrial policy were shaped solely by considerations of nationalistic self-sufficiency.

In a free capitalist world money would not be squandered building an automobile manufacturing industry in, say, Brazil—as long as the world's best and cheapest cars could be had from the United States; nor would capitalists in the United States attempt to make some substitute for coffee as long as it could be had economically from Brazil. In a sane world neither we nor the Germans would be straining to make huge quantities of synthetic rubber, though small quantities would be made for distinctly specialized uses.

In summary, the future need not be—and probably will not be—as dark as so many of us now fear. It is just possible that it might be much brighter than the past. There are no foreseeable limits to the ultimate economic progress of mankind—through the world or in the United States. Ahead of us is the continuing potentiality of endless technological and scientific discovery and innovation, spurred as always by war pressures. Its specific fruits—creating new jobs, lifting our living standard—are beyond prediction, although, to cite two recognizable examples, it is apparent that the great age of chemistry and air transport is barely begun.

There is no short, nicely-paved road to economic Utopia; and anyone who lightly says we have now mastered the problem of abundant production—so much so that we must struggle to unload surplus output in foreign markets—is either stupid or crazy. In 1940, a prosperous year, our per capita national income was the equivalent of about $10 a week. That might look like high living to a Chinese, but certainly we don't consider it the ultimate under the American system. Today unemployment has virtually ended and we are pushing our industrial facilities at approximate capacity. Yet weekly per capita income has been lifted merely to $13. In thirty years since 1910 the net increase per week per capita has been about $7 or an average of little more than 23 cents a week of advance per year, part of which was price inflation rather than gain in real purchasing power. Rome was not built in a day.

And while all signs of the times indicate that we shall have to accept a continuing large measure of "economic planning" by the State, the realists among us know—or ought to know—that neither magical effectiveness nor infallibility attaches to it. The "State" is an awe-inspiring word, but the decisions of the State are made by a limited number of human beings—our elected public officials and the bureaucrats they select. As compared with the rest of us, they are neither more nor less wise, more nor less virtuous. Unlike the rest of us, their decisions are necessarily colored by political self-interest—which is a form of self-interest wholly different from the self-interest motivating the decisions of innumerable "capitalists," from factory managers to housewives doing the family shopping. The latter are keenly aware that an unwise decision means personal, financial loss. Public officials are not similarly restrained in their calculations—which is why they frequently subject "public money" to risks in experimental undertakings in which they would not dream of investing their own saving.

Let's take a brief look at a few samples of Government "planning" in our time. In the days of President Harding and Coolidge the Government encouraged the making of foreign loans, but coupled with this policy a high tariff which made it impossible for foreigners to sell us the goods needed to obtain dollar exchange with which to service the loans. The Coolidge Government more or less openly sponsored the inflation of our greatest stock market bubble, aand none was more bullish than the Federal Reserve Board of the time. The Hoover Government first gave added encouragement to the speculative spree, then the monetary-credit brakes were slapped on when it was too late, then virtually nothing was done—and certainly nothing effective—to reverse the most terrible economic and financial deflation of modern times.

President Roosevelt's first economic plan was to cut the costs of Federal Government by 25 per cent, thus encouraging resumption of private investment. The second plan was N R A, the very antithesis of competitive free capitalism and an expedient which was rapidly becoming an economic failure when it was discarded by a hostile Supreme Court. Simultaneously we had the gold-buying plan to raise the commodity price level, although many knew then—and all know now—that there is no automatic relationship between the decreed price for gold and the prices of other commodities.

Next came the pump-priming, deficit-spending plan. It worked within limits—providing employ-

ment, spreading purchasing power and stimulating economic activity. It did not bring an adequate renewal of private, capitalist investment, nor solve the unemployment problem. Next, while there was still large-scale unemployment and our productive facilities were well below capacity operation, the Administration became alarmed over the threat of inflation, took safeguarding steps in credit management and temporarily balanced the budget—and there followed one of the fastest depressions on record.

Whereupon deficit-spending was quickly resumed, and from the summer of 1938 to the autumn of 1939 we had a partial economic recovery. Next came the European war, then the defense program and now all-out war effort. We now have record-breaking industrial activity and unemployment is virtually ended, but the way it came about was not planned. It happens to be the same way by which Hitler ended German unemployment and created a labor shortage. What next? Nobody knows.

But there is this about "planning":—when individual capitalists make mistakes, they lose their money and usually no lasting harm is done thereby to the nation. Indeed, the sum total of the individualistic decisions of millions of capitalists has created over the generations the richest economy in the world and the one whose benefits are most widely diffused among all the people. It has yet to be demonstrated anywhere on this globe that State management can do a better job.

On the other hand there is a staggering risk in State planning in that an unwise national policy is costly to all and may conceivably be disastrous. Lord help us, if future Government planning is not wiser than it has been in the past! In fact it is certain that it will let us down—unless it can make a place in its scheme of things for a healthy, competitive, expanding capitalism at home and for restored freedom of international movement of goods, people and capital.

Inflation Takes a New Turn

(Continued from page 475)

future inflow of investible funds, the insurance companies over the next eighteen months may perhaps be able to absorb from 2 to 2½ billions more of Federal obligations.

What it boils down to is that over the coming eighteen months the commercial banks—through deposit inflation—probably will have to absorb somewhere between 25 and 30 billions of Government obligations—unless the general public is forced to hand over to the Government, through taxes or compulsory loans, far more than present Washington indications suggest.

The magnitude of this change in the credit-inflation picture can be realized when it is noted that at the present time all commercial banks are estimated to hold a total of only 20 billions in Treasury obligations, both direct and guaranteed. In other words, within 18 months the *increase* in their holdings of Government paper is likely to be more than twice as great as the increase in approximately 109 months between the end of 1932 and the present.

Now to the extent that the Government uses these inflationary deposits to pay for materials it can exercise either effective or fairly effective control over the prices of those particular materials, for in many instances it will be the only buyer and in even more it will be by far the largest buyer. But even within the area of controlled prices, limits will be raised where necessary to spur production as, for instance, we have seen recently in the case of industrial alcohol and added 1942 copper production.

Yet regardless of whether the Government can control prices of its own purchases, the expenditure of deficit-financed money by the billions will greatly inflate the money incomes of all those engaged in the war production, while on the other hand the normal channels of consumer expenditure will be greatly curtailed.

It is thus quite evident that holding price inflation within reasonable bounds is going to be a formidable task for Mr. Henderson and his associates; and that the supply side of our economy must be a steadily increasing consideration in business and investment decisions. The area of shortage and bottlenecks in materials, labor, machines, transport and power will expand as time goes on.

In general, the civilian supply situation will call for much increased use of rationing, which is the fairest and most effective form of controlling distribution and price—although we shall never have to carry rationing to the lengths adopted in England, Germany or Japan. It will call for rigid restriction of credit for civilians, but at the same time for relaxation in commercial bank reserve requirements so there will be ample leeway for bank purchase of Government obligations. It will call for a flexible price-control law, including Federal power to license sellers. It will call for Government restraints, formal or informal, on industrial wage costs. It will call for much heavier taxation of wage workers, among whom the inflationary increase in money income is greatest. Finally, before we have done with this emergency, it will probably take us to compulsory savings in defense bonds.

Happening in Washington

(Continued from page 477)

tion and excess personnel from old OPM. Boss Nelson will continue his whittling down technique as imperfections in the setup act as brakes on the procurement drive. More heads will fall—and not always into face saving positions.

Anti-trust laws as interpreted by Assistant Attorney General Thurman Arnold must eventually be thrust away into storage for the duration. British experience proves this. Handicapped by no such obsolete theories of anti-trust enforcement, Britain has successfully avoided much priority unemployment waste by causing competitors to unite. Arnold has doggedly insisted he won't turn his back and permit any wide insertion of this British philosophy into American war industry. You can bet now he will be ordered to.

What Next for the Rubbers?

(Continued from page 499)

this type of business. Smaller processors making latex products for the luxury trade may have to follow those of their competitors who have already shut up shop. Certain large organizations, like Goodyear and U. S. Rubber, which received 12 and 18 per cent respectively of 1940 earnings from plantations in Malaya, will suffer a partial loss of income.

Yet for many manufacturers an industry operating rate somewhat in excess of the 1938 average would mean a reasonably good year. Makers of heavy duty tires for military equipment and manufacturers with facilities for turning out a wide variety of mechanical goods such as bullet-proof gasoline tanks, blimps, footwear, gas masks, gaskets, life rafts and insulating equipment may be facing little or no decline in output from 1941 levels. For these, the recent statement of President Lee of Lee Rubber & Tire that 70 per cent of his company's production is going into armaments and that capacity operations will soon be achieved and maintained, may represent an average rather than an exception. Looking forward to 1943, when synthetic plants have been completed, the supplies of the Amazon Valley have been tapped and the requirements of the Victory Program are greater, even higher operating levels may be achieved.

Earnings also should be reasonably well maintained. While wage and raw material costs, as estimated by the Rubber Manufacturers' Association, have already advanced 50 per cent and will probably work higher, some recognition of this condition should be given in Government work.

Like every industry, rubber manufacturing is being affected by certain unavoidable injuries traceable directly to the war. But the companies hurt are not by and large the ones in which the investor is interested. Earnings of those concerns properly equipped for war work probably will drop below the levels of the last two years, but hardly to points not discounted by present share prices. This does not suggest that rubber securities are particularly attractive. Profit possibilities this year do not promise much in the way of appreciation for those shares but at present low prices there is sufficient hope in the prospect to justify retention of holdings in diversified portfolios.

Six Common Stocks in Strategic Position

(Continued from page 503)

car output in the next three months, would be hastened if the expected recognition is given to the I C C's insistence that the rail equipment industry receive sufficient supplies. In that case, earnings prospects of National, in common with those of other manufacturers, would be strengthened accordingly. In addition, however, the company is working on shipbuilding and munitions orders which already have priorities ratings. Although these are expected to be the less important source of earnings, they should provide an adequate offset to the loss of automotive business, where margins normally are smaller, particularly as the greatly expanded arms program should insure their increasing importance in coming months. National Malleable & Steel's earnings in 1941 were probably at the second highest point in recent years, being slightly in excess of the $3.16 a share of 1929 and exceeded only by the $4.02 of 1937. In average years, approximately 55 per cent of volume consists of rail equipment, most of the remainder being derived from the automobile industry. Rail business is the more important in earnings, as profit margins are wider. Finances are sound, the working capital ratio shown on latest available balance sheet being 3.9 to 1. Net income in 1940 was equal to $3.05 a share on the 483,961 shares of capital stock outstanding. For the nine months ended September 30, 1941, earnings were equal to $2.78 a share. Dividends totaled $1.75 a share in 1941.

Southern Pacific

War in the Pacific will be a constructive factor in the long range financial rehabilitation program of the Southern Pacific and should strengthen the position of the common stock. The outbreak of hostilities has accelerated the strong improvement in traffic shown in recent months and will cause even sharper gains in revenues and earnings, since the increased needs of the Far Eastern forces and the diversion of coastwise shipping may be expected to result in a further marked rise in loadings. What this could mean to the system can be shown by a projection, admittedly tentative, of the working capital position, earnings and ability to meet the substantial maturities of the next few years. Continuation of Southern Pacific's current earnings trend, even on a diminishing scale, should permit the road to take care of obligations of approximately $96,500,000, maturing between now and 1946, without much difficulty. Net current working capital at the end of 1941 probably approximated $36,600,000 and cash position was strong. As a result the road should have no trouble in repaying the $15,000,000 bank loans due in 1942. This would reduce the net current position to around $21,600,000, but if the company is able to earn $36,400,000 in 1942, as is quite possible even without an increase in freight rates, it could end the year with net working capital of $58,000,000. This should make repayment of the $14,919,000 debt due in 1943 a simple matter, although reducing the excess of current assets to around $43,000,000. There are no obligations to be paid in either 1944 or 1945, and a projection of earnings during those years is, of course, subject to question. Assuming, however, that net income in 1943, 1944 and 1945 amounted to $30,000,000, $25,000,000 and $12,500,000 respectively, Southern Pacific, with an excess of current assets of $110,500,000 on December 31, 1945, would be in excellent position to meet the funded debt of $66,616,409 falling due in 1946. The road would still have $132,284,625 to pay in 1949, but would obviously be in much better position to refund the bonds. At the same time the status of the common stock would, of course, be stronger. Southern Pacific's capitalization currently consists of funded debt of $709,555,480, debt of affiliated companies of $11,389,338 and 3,772,763 shares of no par common stock. The latter recently sold at 12¾; 1941-2 range 14¾—8.

Record Volume Ahead for Machinery and Equipment

(Continued from page 489)

ings before taxes will not increase at the same rate as sales, while taxes will hold down increases in net profits. The electrical equipment makers, nevertheless, will fare better earningswise than a number of other industrial lines.

Except for manufacturers of radios, the outlook for the appliance division is dismal. Production of refrigerators, washing machines, and vacuum cleaners has been cut considerably, and more drastic curtailment is probable as a result of war demands. The profits outlook for appliance makers is highly uncertain and far from satisfactory, since retooling for war work is expensive and cannot be achieved immediately, and it is problematical whether sufficient arms orders will be obtained to offset loss of normal business, profit margins on which have been substantially greater than offered by war work. The radio industry is planning on huge volumes for military needs, and, while civilian sales may be curbed, sales and profits prospects are satisfactory.

Rail Equipments in War Boom

(Continued from page 492)

ities may again prove restrictive later on. In any event, the program clearly envisages getting as many cars and locomotives produced as quickly as possible before the needs of the railroads must be subordinated more completely to production of armaments.

The industry is taking a leading part in production of tanks and other war equipment. Ordinary transportation business now is relatively puny compared with arms orders, which will become increasingly important. The increasing emphasis on armaments makes most stocks comparatively attractive as armament speculations, but the heavy splurge of equipment buying suggests postwar difficulties which will probably continue to find reflection in modest capitalization of current earning power.

Farm Equipment Profits Will Be Moderately Lower

(*Continued from page* 494)

to be maintained by expansion in military work. However, profit margins on munitions will probably not be comparable with those obtained on normal lines, all of which, in conjunction with the higher taxes in prospect, foreshadows reduced net profits. The decline should be moderate for the major units, and not disturb continuance of reasonably liberal dividends, with most rates, now being paid, covered by a goodly margin.

Five Exceptional Opportunities in Rail Bonds

(*Continued from page* 484)

movement. To meet this situation, the railroads will supplement existing equipment with some 100,000 new freight cars between now and the peak of freight movement next fall and judging from the achievement of the recent past there will be no cause for complaint from either the armed forces or private shippers.

What this traffic will mean from the standpoint of earnings still remains in some doubt. Last fall, wages were increased by about $330 million annually and taxes and operating expenses have been rising steadily, with a further increase indicated for the current year. As an offset to these restrictive factors, both passenger and freight revenues are increasing and higher rates on both seem in the cards. The I.C.C. has already granted a 10% increase in passenger fares and action on the more important petition to increase freight rates by a like amount is expected at an early date. While the full extent of the petitioned increase may not be approved, the lack of important opposition suggests favorable action here also. In this setting the bonds here presented should offer strong appeal to the investor interested in income as well as possibilities of market gain. While only five bonds are individually analyzed, a number of other issues are presented, in the accompanying table, which are believed to possess like appeal.

Southern Pacific 4½s, 1981

Priced around 53, the Southern Pacific 4½s of 1981 yield a current return of around 8½%, a rate which appears to compensate fully for the risks involved. While the depression record of the road was featured by a sharp decline in income and there were several years in which bond interest and other fixed requirements were not fully earned, a strong comeback is now being staged. Gross revenues in the first eleven months of 1941 amounted to $270,022,343 as compared with $210,447,871 in the similar period of the preceding year. Fixed charges were covered 2.26 times, the best margin in many years and contrasting with a coverage of but 1.23 times in the 1940 period. This betterment in the earnings picture has been accompanied by a corresponding improvement in finances, with net current assets standing at $39,849,017 on Nov. 30, last, as against $10,889,592 a year before. Cash alone amounted to $35,018,770 at the date of the latest report despite the fact that floating debt has been steadily reduced and should be entirely eliminated at an early date. With all indications pointing to a continued heavy volume of traffic during the current year, this important transcontinental carrier may be expected to make further headway in restor-

ing its former high credit rating. Although occupying a junior position in the road's debt structure, the subject bonds are believed to possess considerable appeal at current price levels.

Erie Railroad Income 4½s, 2015

Issued late last December in connection with final consummation of the road's reorganization, the Erie Income 4½s of 2015 are now selling at about their highest level of around 56½ as compared with a low of 45¼. Considering the fact that these bonds will be entitled to $45 each by April 1, next, the return to the holder still exceeds 8%, which is liberal in relation to recent earnings protection. Under the terms of reorganization, fixed charges were sharply reduced and in only few years would earnings have failed to cover full requirements on the subject junior issue. Coverage was wide in both 1939 and 1940 while the margin is estimated around four times for last year. The bonds are cumulative only to the extent earned up to a maximum of 13½%. Since the effective date of reorganization was Jan. 1, 1940, a payment of $45

AS I SEE IT!

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It is an economic system, for it has a fluid philosophy that is best adapted to the psychology of human beings. Despite statements to the contrary, all men are *not* born equal. The facts are that the aptitudes of men are unequal, and in our system, with the proper regulation, every man has a chance according to his capacity, and no man is another man's slave.

That doesn't say that our system is perfect. It is far from perfect, but only because human beings are imperfect. The only difference between American democracy and that of any other kind of democracy is the high wages that we pay our labor, and the advantages that accrue to us because our workers are able to absorb 90% of the manufactured products of this country, so that our export trade has never been more than 10%.

Compare this with the 30 and 40% export quotas necessary for most other countries. It is true that we produce many of our raw materials, but our cost of production is very high, and these raw materials are available to the rest of the world at the same price that we pay for them. This being so, compare this with the other countries who must necessarily export from 10 to 40% of their products because the wages paid to workers are so low that they are unable to buy their own manufactured products, and frequently live on such a low standard that they are practically at a subsistence level, so that the raw materials, too, of these countries flood the market, seeking buyers elsewhere.

Under such circumstances, revolutions and wars must continue. It is only when we adopt a common sense basis of economic security, whereby all nations can consume the greater portion of their own products, exporting only their specialties, that we can hope for peace in this world, for all wars are essentially economic, regardless of what other reasons are given.

The security for most of mankind is very flimsy, as this war has shown us. The institutions of production, of even the meanest necessity, can collapse like a balloon when punctured with the point of a pin. In a few short weeks, starvation and diseases are rife, where abundance and good health had been only a short time before.

This time, we must do something about it. We should never again permit such wanton destruction of the works of man, which have taken centuries to develop, or destroy the fruits of the hard-won battle, for the reasonable security which men for several centuries enjoyed up to this war.

Dearest Catherine, if we can only teach sound and intelligent thinking, we can solve the problems of future worlds, but unless we do, each new generation will try its own way, and the suffering of mankind will continue to go on indefinitely. It is useless to set up forms that can be torn down. We must build in the soul and heart of each generation the truths which alone can bring peace and hapiness for all of us.

At the moment, we are thick in the war of defense against the most brutal aggression known since ancient times. The perfidious attack on Pearl Harbor united our whole country, and the enthusiasm to do everything that is necessary to win this war, regardless of sacrifices, is taking hold of the entire people. If we all work together with sincerity, I know the Japs are as good as beaten, and Hitler cannot possibly survive.

From your letters, I can see that you are all adjusting yourselves magnificently to the unexpected hardships. It is always that way. People with stuff can always take it.

Please write me whenever you can. I am so anxious to hear from you and to know your news.

My best love to you.

As ever yours,

CHARLES B.

a $1,000 bond was made out of earnings for that year upon issuance last December leaving the issue clear of accumulations except for the payment due from earnings in 1941. Because of the nature of the territory served, traffic and earnings for this important carrier are the most promising in many years.

Lehigh Valley First Mortgage 4½s, 1950

Quoted around 52, the current yield on the Lehigh Valley 1st 4½s of 1950 is around 8.7%, indicating in some degree the unsatisfactory past earnings record of the road. However, recent earnings have been improving sharply and if this trend continues, as appears certain during the period directly ahead, the credit position of the road should be correspondingly improved. During the first eleven months of 1941, this carrier showed fixed charges earned by the highest margin in a decade, but in only one of the past ten calendar years were charges fully covered. Improvement in finances as a result of earnings gains and settlement of the Black Tom claim against the Government, together with the increase in traffic, is basis for optimism on the future market performance of the issue. Equipment is said to be in good shape, with fewer than 2% of freight cars in bad order. Anthracite is the principal commodity carried, although a number of important war industries are located in the territory traversed and are resulting in important traffic to the carrier which gives every promise of continuing to grow.

Northern Pacific Ref. 6s, 2047

Following the generally poor year 1938, in which only 70% of fixed charges was earned, the fortunes of the Northern Pacific have been improving steadily and the past year should show fixed charges covered by a good margin. According to recent estimates, gross revenues in 1941 ran around $85 million which would compare with actual gross in 1940 of $68,714,635 and not far below the prosperous year 1929 when the figure stood at $96,522,348. Net income for 1941 has been officially estimated at $8,000,000 as against $2,064,091 in 1940. Loadings of grain, livestock and forest products in recent weeks have been running above the comparable weeks of last year and prospects indicate further gains. Absence of any important bond maturity problem for many years, together with the greatly improved finances, lend considerable confidence to the market future of this bond at recent levels of 67½.

Chicago Great Western Income 4½s, 2038

Selling at 42, to yield a current return, based on the full contingent interest payment, of around 11%, the income bonds of the Great Western offer considerable appeal. Interest requirements on these bonds amount to only about $274,000 annually and on the basis of recent earnings the full payment of interest is anticipated on April 1, next. The bonds were issued early in 1941 in connection with completion of the reorganization plan whereby fixed charges were sharply reduced and much of previously outstanding first mortgage indebtedness placed on a contingency basis as represented in part by the income bonds. Interest is cumulative whether or not earned up to 13½%. On the basis of present capitalization, earnings report for the past year should show all charges, including contingent, earned by a wide margin.

What 1941 Reports Disclose for 1942

(Continued from page 483)

reported in 1941 earnings will be very large, and the figures on dollar earnings per share will also be quite impressive in most instances. But prior to this sudden rush of business these companies had had very lean pickings for a decade or since the end of the big rail equipment volume of the late 20's. Some have large arrears on preferred issues. All are confronted with radically increased need for working capital.

Moreover, the managements know that for their industry, especially, the picnic will end for many years to come when the war ends, for even though we maintain a large fighting force indefinitely its replacement equipment needs can hardly give the rail equipments more than a small percentage of the Government business they will do in this period; and the railroads will not indefinitely keep on adding new cars and locomotives. Under the circumstances, dividends on common stocks will get secondary consideration and first emphasis will be put on strengthening the financial and physical condition of these enterprises.

Most merchandising companies have fiscal years ending January 31, so that reports will not be issued for some weeks. Although there will be no shortage of total consumer purchasing power in the country this year, the supply situation is a problem and volume prospects don't look too impressive in relation to higher operating costs and taxes. You might note that the majority of merchandising stocks are fairly close to the year's lows and a few have extended their 1941 lows quite recently. So clear-cut a consensus of investment opinion—which naturally must reflect in part "insider" opinions and tranactions—is not to be lightly argued with.

One thing especially worth noting is that 1941 earnings are not necessarily indicative of *current* earning power. In many instances companies reporting large gains for the year had fourth quarter profits lower than in the third quarter or than in the final quarter of 1940. This was notably true of railroads, flecting higher wage costs and indicating—in relations to 1942 earnings prospects—the importance of the nearby I C C decision on freight rates. In the aggregate, profits of American business have begun to flatten out, and exceptions to this rule in the present year will prove to constitute a very small minority of listed stocks. But since that prospect has long been allowed for in the low ratio of market prices to earnings, it is not necessarily a primary factor as regards the 1942 trend of the market.

An abnormally large percentage of the total corporate profits of the present year will be accounted for by "prince and pauper" industries, such as railroads, machine tools, steels, rail equipments, etc. That is another reason why a smaller-than-usual proportion of 1942 profits will be distributed in dividends, for companies that have extreme swings in earnings never distribute as much of earnings as do enterprises in more stable fields.

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